

Appendix A

Appendix A

Report of the Audit Committee of the City of San Diego

Glossary of Terms

TERM	DEFINITION
13th Check	An additional payment that is distributed to eligible retirees in a given year if SDCERS “has realized sufficient surplus undistributed earnings from the previous fiscal year.”
Acceleration Provision	A term that requires the payment of the unpaid balance of a debt prior to its maturity date, if specified events occur.
Actuarial Accrued Liability (“AAL”)	The term used in connection with defined benefit pension and other post-employment benefit plans to describe that portion of the present value of benefits promised to employees that will not be provided through future normal costs.
Actuarial Assumptions	Estimates of certain factors affecting pension costs, including rates of mortality, disability, employee turnover, rates of investment income, and salary increases. These are the underlying assumptions used in making actuarial valuations.
Actuarial Method	A procedure by which data is analyzed and actuarial assumptions used to estimate a future cost or other actuarial item.
Actuarial Valuation	The determination, as of a specified date, of the normal cost, actuarial accrued liability, actuarial value of the assets of a pension plan, and other relevant values for a pension plan based on certain actuarial assumptions.
Actuarial Value of Assets (“AVA”)	The term used in connection with defined benefit plans and other post-employment benefit plans. The value assigned to plan assets for actuarial purposes. Because this value often represents an average over time, and because the valuation date may be different from the reporting date, the actuarial value of assets may differ from the amount reported in the financial statements as of the end of the fiscal period.
Annual Required Contribution (“ARC”)	The term used in connection with defined benefit plans and other post-employment benefit plans to describe the amount an employer must contribute in a given year.

TERM	DEFINITION
Actuary	A person professionally trained in the technical and mathematical aspects of insurance, pensions and related fields. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future.
Aid and Abet	To assist, facilitate, or promote the accomplishment of the commission of a crime or breach of fiduciary duty.
Amortization	The reduction of a debt by periodic payments of interest and principal sufficient to pay off the debt in a given period of time.
Audit Closing Agreement Program (“Audit CAP”)	The third component of the IRS’s Employee Plans Compliance Resolution System that allows a plan sponsor who discovers significant problems as a result of an audit to correct certain errors.
Audited Annual Financial Statement or Comprehensive Annual Financial Report (“CAFR”)	The City’s annual report summarizing its financial operations and condition.
Balloon Payment	Refers to the lump-sum amount that the City would need to contribute into the System under MP-1 if the trigger was hit.
Basic Multiplier	A percentage used to calculate retirement benefits based on a member’s years of credible service.
Bear Market	A prolonged period of falling investment values.
Biological Oxygen Demand (“BOD”)	The measure of organics (biologically decomposable material) that are found in wastewater.
Black & Veatch Study (“The B&V Study”)	A study completed in May 2002 regarding the City’s obligations to comply with the State Water Resources Control Board Revenue Program Guidelines.
Blue Ribbon Committee (“BRC”)	A Committee consisting of private citizens, created by Mayor Murphy, to assist the Mayor and City Council in evaluating the fiscal health of the City. The Committee issued a report, which included a discussion regarding the pension system, in February 2002.

TERM	DEFINITION
Bond	A debt instrument (a written promise to repay a debt) issued by a government or corporation for the purpose of raising money, in which the issuer promises to repay the principal and interest to the bondholder in a specified period of time.
Bryan Cave Memorandum	A memorandum issued in November 2001, which described the City Council's duties with respect to bond issuances.
Buck Consultants' Draft Report (the "Buck Report")	A draft report written in April 1989, which estimated the cost of the City's healthcare liability under both the projected unit credit and entry age normal cost methods.
Bull Market	A prolonged period of rising investment values.
Cease-and-Desist Order	A court or agency order prohibiting a person from continuing a particular course of conduct.
Chemical Oxygen Demand ("COD")	A test that indirectly measures the amount of organic compounds in water. Most applications of COD determine the amount of organic pollutants found in surface water (<i>e.g.</i> lakes and rivers), making COD a useful measure of water quality.
Clean Water Act ("CLW")	This Act established the basic structure for regulating discharges of pollutants into the waters of the United States and gave the Environmental Protection Agency the authority to implement pollution control programs such as setting wastewater standards for industries.
Closed Session Meeting	A meeting of the City Council which is not open to the public.
Code of Federal Regulations	The codification of the general and permanent rules and regulations published in the Federal Register by the executive departments and agencies of the Federal Government of the United States.
Continuing Disclosure Agreements	Agreements between issuers and bondholders in which an issuer promises to disclose material events that occur after the issuance of the bond.
<i>Corbett</i> Litigation	A lawsuit filed in 1998 by retired employees who alleged that the City's method of calculating retiree pension benefits improperly excluded the value of certain benefits such as vacation and sick leave in computing the employees' base salaries.

TERM	DEFINITION
Corridor Funding	A term used to refer to the funding arrangement entered into between the City of San Diego and the SDCERS Board which required the City to contribute to the system at contractually determined rates that were below the actuarially required contributions rates. This method is not GASB approved.
Cost of Living Adjustment (“COLA”)	An annual adjustment of wages or pension benefits to offset a change (usually a loss) in purchasing power.
Cost of Service Study (“COSS”)	A study conducted by experts to examine various aspects of a city's water rate structure.
Covenant	A formal agreement or promise.
Current Obligations	Payments to retired City employees who are entitled to benefits which are paid by SDCERS using investment income from investment assets.
Deferred Retirement Option Program (“DROP”)	A retirement program that allows members to continue to be employed after they become eligible for retirement, and have their pension checks put in an annuity that they can access upon retirement.
Defined Benefit Plan	A pension plan under which fixed retirement benefits are promised to plan participants. This is in contrast to a defined contribution plan, in which the contributions to a pension plan on behalf of an employee are fixed, and the retirement benefits ultimately paid to that employee are determined by the investment performance of the fund.
Disclosure Documents	Documents which contain information about the issuer of a security, made available to the public pursuant to state and local securities laws. The principal disclosure documents associated with municipal bond offerings are the Preliminary Official Statement and the Official Statement.
Docket	To place on a calendar or agenda for discussion.
Elected Officers	One of the three classes of SDCERS participants consisting of the Mayor, the members of the City Council, and the City Attorney.
Employee Plans Compliance Resolution System (“EPCRS”)	The IRS system that enables a sponsor to communicate with the IRS as to the validity of a certain aspect of a plan or the effectiveness of a correction the sponsor made to a past violation.

TERM	DEFINITION
Entry Age Normal Cost Method (“EAN”)	An actuarial cost method approved by GASB which required the actuary to calculate the amount that would fund the pension benefit of each member participating in the retirement plan if paid from the date of hire to the date of retirement, spreading the cost evenly over a member’s entire career.
Fiduciary	A person who owes another the duties of good faith, trust, confidence, and candor.
Financial Statements	A written report of the financial condition of an entity. Financial statements include balance sheets, income statements, statements of changes in net worth and statements of cash flow.
Fiscal Year	An accounting period of 12 consecutive months that an entity uses to determine profits or losses. The fiscal year for the City of San Diego and SDCERS ends on June 30 th of every year.
Flow	The amount of wastewater that is discharged in a given time period.
Funding Method	A procedure for determining the actuarial present value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial liability.
Funded Ratio	The ratio of the actuarial value of the assets available to pay benefits under a pension plan to the total actuarial accrued liability of the pension plan.
General Fund	The general operating fund of a city is comprised of all of the financial resources of the city, except those specifically required to be accounted for in another fund.
General Members	One of the three classes of SDCERS participants consisting of those participants who are neither Safety Members nor Elected Officers.
Generally Accepted Auditing Standards (“GAAS”)	Standards which require an auditor to have reasonable assurance about whether financial statements are free of material misstatements arising from illegal acts that have a direct and material effect on the determination of financial statement amounts.
<i>Gleason</i> Litigation	A lawsuit filed in 2003 which eventually led to the repudiation of MP-2.

TERM	DEFINITION
Governmental Accounting and Financial Reporting Standards 10 (“GASB 10”)	The GASB Statement setting forth the requirements for the disclosure of contingent liabilities.
Governmental Accounting and Financial Reporting Standards 12 (“GASB 12”)	The GASB Statement setting forth the framework for the disclosure of information regarding post-employment and non-pension benefits.
Governmental Accounting and Financial Reporting Standards 25 (“GASB 25”)	The GASB Statement setting forth standards for Financial Reporting for the financial statements of defined contribution plans of state and local governmental entities such as those issued by SDCERS, including note disclosures.
Governmental Accounting and Financial Reporting Standards 26 (“GASB 26”)	The GASB Statement that sets standards for Financial Reporting for post-employment healthcare plans administered by state and local governmental defined benefit pension plans.
Governmental Accounting and Financial Reporting Standards 27 (“GASB 27”)	The GASB Statement setting forth standards for the measurement of pension expenditures and related liabilities, assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers.
Governmental Accounting and Financial Reporting Standards 34 (“GASB 34”)	The GASB Statement that addresses basic financial statements and the section of financial reports directed to management’s discussion and analysis for state and local governments.
Governmental Accounting and Financial Reporting Standards 45 (“GASB 45”)	The GASB Statement on Accounting and Financial Reporting by employers for post-employment benefits other than pensions.
Governmental Accounting Standards Board Statements (“GASB”)	The Governmental Accounting Standards Board establishes standards for accounting and financial reporting by state and local governments. These standards also apply to public employee retirement systems.
Independent Auditor	An external auditor with a certified public accounting designation that qualifies him or her to provide an auditor's report.
Injunction	A court order commanding or preventing an action.

TERM	DEFINITION
Internal Revenue Code (“IRC”)	The various statutes and regulations making up federal tax law.
International Association of Firefighters, AFL-CIO (“Local 145”)	A labor union whose members are beneficiaries of SDCERS.
Investment Allocation Data	Information regarding how a system’s funds are allocated among various investments. For example, a system’s investment allocation data could reveal that 40% of the system is invested in real estate and 60% of the system is invested in stocks.
Key Word Search	To search electronic data by having the program search for terms (key words) provided by the user.
Manager’s Proposal 1 (“MP-1”)	An agreement approved by the City Council and SDCERS Board which allowed the City to make contractually determined contributions to SDCERS, rather than contributions determined by actuarial calculation, so long as SDCERS’s funded ratio remained above the 82.3% “trigger.”
Manager’s Proposal 2 (“MP-2”)	An agreement approved by the City Council and SDCERS Board which allowed the City to make contractually determined contributions to SDCERS, and provided a “ramp-up” period to reach full actuarial funding if the “trigger” was hit.
Meet and Confer	A negotiation between employees or their union representatives and their employer regarding rates of compensation, retirement benefits, and other conditions of employment.
Metropolitan Wastewater Department (“MWWD”)	The City department that provides sewage services to residents and businesses within San Diego, as well as to 15 neighboring municipalities known as Participating Agencies.
Municipal Bonds	A bond issued by a state, city, or local government. Municipalities issue bonds to raise capital for their day-to-day activities and for specific projects that they might be undertaking.
Municipal Employees’ Association (“MEA”)	A labor union whose members are beneficiaries of SDCERS.
Municipal Issuers	A state, city, or local government that issues municipal bonds.
Municipal Securities	Fixed income obligations of state and local governments, including municipal bonds.

TERM	DEFINITION
Nationally Recognized Municipal Securities Information Repositories (“NRMSIR”)	Information clearinghouses for municipal securities, which receive published Official Statement once they have been issued.
Net Pension Obligation (“NPO”)	In the context of defined benefit pension and other post-retirement benefit plans, the cumulative difference between annual pension cost and the employer’s contributions to the plan, including the pension liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to pension-related debt.
Normal Cost	The portion of the actuarial present value of pension benefits and expenses that are allocated to a valuation year as determined by a particular actuarial cost method.
Notice and Cure Provision	A contractual term that grants a party in breach of a contract the right to be notified of the breach and the opportunity to fix the breach before the contract can be terminated.
Ocean Pollution Reduction Act (“OPRA”)	An federal law designed to restore and maintain the chemical, physical, and biological integrity of the Nation's waters.
Offering	The act of making a new security available to the public for sale.
Official Statement (“OS”)	One of the principal disclosure documents associated with municipal bond offerings. The OS contains substantially the same information as the Preliminary Offering Statement, but also contains pricing information.
Participating Agencies (“PA”)	The 15 neighboring municipalities to which the Metropolitan Wastewater Department provides sewage services.
Pay-As-You-Go	A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses become due.
Pension Obligation Bonds (“POB”)	Bonds that are typically secured by the municipal issuers’ general obligation pledge and are issued to fund all or a portion of a pension plan sponsor’s unfunded pension liability in the expectation that debt service on the bonds will be less than the contributions that would otherwise be required from the sponsor.

TERM	DEFINITION
Pension Reform Committee (“PRC”)	A Committee of outside professionals created by Mayor Murphy to study the pension system in July 2003.
Plan Participant	An individual covered by a benefit plan.
Police Officers’ Association (“POA”)	A labor union whose members are beneficiaries of SDCERS.
Preliminary Official Statement (“POS”)	One of the principal disclosure documents associated with municipal bond offerings. The POS is distributed to potential investors before the bonds are issued, so that the issuer and underwriter can gauge the market's level of interest in the bonds.
Present Value	The value today of an amount receivable or payable in the future, reflecting the fact that an amount of money available at an earlier point in time has greater usefulness and value than the same amount of money at a later point in time.
Presidential Leave	A retirement benefit granted to the Presidents of three municipal unions, the Police Officers' Association, the International Association of Firefighters, AFL-CIO, and the Municipal Employees' Association.
Projected Credit Unit (“PUC”)	An actuarial cost method approved by GASB pursuant to which the actuary calculates the amount that would fund the benefit earned in a particular year by each member participating in the pension plan.
Proportionality Requirement	The requirement under the Clean Water Act and the constitutional amendment passed by California voters in November 1996 (Proposition 218) which requires the City to charge recipients of waste treatment services a proportionate share of the City’s cost to treat the wastewater.
Proposition 218 (“Prop 218”)	The constitutional amendment passed by California voters in November 1996 that provides that a fee be imposed upon "a parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel."
Public Disclosures	The public submission of facts and details concerning a situation or business operation. In general, security exchanges and the SEC require firms to disclose to the investment community the facts concerning issues that will affect the issuer’s stock prices.

TERM	DEFINITION
Purchase of Service Credit (“PSC”)	A benefit the City granted in 1996 under which employees could "purchase" years of service to increase their pension upon retirement.
Ramp-Up	Refers to the term contained in MP-2 which allowed the City to increase their contributions over a period of time if the trigger was hit, rather than needing to make a lump sum payment.
Rating Agencies	Organizations which provide the service of evaluating the relative creditworthiness of issuers and assigning ratings to them, such as Moody's Investors Service, Inc., Standard & Poor's Corporation, and Fitch's Investors Service.
Recuse	To remove oneself because of prejudice or conflict of interest.
Reich, Lufman, Reicher & Cohen’s Report (the “Reish Luftman Report” or “RLR”)	Legal Analysis by Reich, Lufman, Reicher & Cohen, which accompanied Navigant Consulting, Inc.’s January 2006 Report.
Reserves	Separate accounts of the SDCERS system that are used for various purposes, including accounting for liabilities in the plan’s balance sheet. A public retirement system may maintain reserve accounts for employer contributions, employee contributions, and retiree benefits.
San Diego City Council Committee on Rules, Finance and Intergovernmental Relations (the “Rules Committee”)	A Committee of the San Diego City Council.
Safety Members	One of the classes of SDCERS participants consisting of individuals employed by the City as uniformed members of the City Fire Department, sworn officers of the City Police Department, Police Department recruits in the City’s Police Academy, and full-time City lifeguards.
Salient Points Memo	Dennis Kahlie’s outline that summarized the pertinent issues, entitled “Salient Points, Sewer Cost of Service Compliance Issue.”

TERM	DEFINITION
San Diego City Employees' Retirement System ("SDCERS")	San Diego's public retirement system.
Sarbanes-Oxley Act of 2002 ("SOA of 2002")	An Act which mandated a number of reforms to enhance corporate responsibility, enhance financial disclosures and combat corporate and accounting fraud, and created the Public Company Accounting Oversight Board, to oversee the activities of the auditing profession.
SEC Staff Accounting Bulletin No. 99 ("SAB 99")	According to this accounting bulletin: "The omission or misstatement of an item in a financial report is material if, in the light of the surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item."
Securities Act of 1933 ("Securities Act")	The federal law regulating the registration and initial public offering of securities, with an emphasis on full public disclosure of financial information.
Securities and Exchange Commission ("SEC")	The federal agency that regulates the issuance and trading of securities in an effort to protect investors against fraudulent or unfair practices.
Securities Exchange Act of 1934 Rules 10b and 17a	These sections generally cover fraudulent acts committed in connection with the purchase or sale of a security, which would include any acts committed in connection with the offering or sale of municipal bonds.
Security	Collateral given to pledge or guarantee the fulfillment of an obligation.
Self-Correction Program ("SCP")	The first component of the Employee Plans Compliance Resolution System which allows for the self-correction of insignificant operational problems at any time.
Sewer Revenue Bonds	Bonds issued in 1993, 1995 and 1999 to fund construction and improvements to the City's sewer facilities. The 2003 Sewer Revenue bonds were never issued.

TERM	DEFINITION
<i>Shames</i> Litigation	A litigation filed by a class of City of San Diego sewer customers in June 2004, alleging the City violated Prop 218 and breached its contractual obligations to City residents by charging sewer service fees in excess to the cost of providing the service attributable to the sewer customers' parcels
Single Audit Act	An act created to (1) promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities; (2) establish uniform requirements for audits of Federal awards administered by non-Federal entities; (3) promote the efficient and effective use of audit resources;(4) reduce burdens on State and local governments, Indian tribes, and nonprofit organizations; and (5) ensure that Federal departments and agencies, to the maximum extent practicable, may rely upon and use audit work done pursuant to the United States Code as amended by this Act.
Stakeholders Group	A group of citizens chosen to review a Cost of Service Study in 1998.
State Water Resources Control Board ("SWRCB" or "the State Board")	A Board established to preserve, enhance, and restore the quality of California's water resources, and ensure their proper allocation and efficient use for the benefit of present and future generations. The Board reviews rate structures.
Strength Based Billing	The practice of billing users based on suspended solids, flow and organics (BOD or COD) in the user's wastewater.
Strong Mayor	The form of government which enhances the powers of the Mayor and subordinates the roles of other City officials
Subpoenas	A writ commanding a person to appear before a court or other tribunal, subject to a penalty for failing to comply.
Surplus Earnings	A term defined in the San Diego Municipal Code as the amount of the system's investment earnings from the previous fiscal year that is not allocated to various system reserves, used to pay budgeted system expenses, or distributed to members as contingent benefits.
Suspended Solids ("SS")	The insoluble solid matter in wastewater.

TERM	DEFINITION
The June 10th Memo	A memorandum sent by Mayor Murphy and City Manager Ewell in June 2005, to over 11,000 city employees, the City Council and SDCERS advising each employee and official to review a series of document requests and subpoenas and determine if they were in possession of potentially responsive documents.
The November 14, 2002 Memo	On November 14, 2002, Kelly Salt and Mary Vattimo submitted a formal memorandum to the Mayor and City Council, recommending the City bring its sewer rates into compliance with its grant and loan conditions.
The Retirement System Comprehensive Annual Financial Report (“SDCERS CAFR”)	The annual financial report issued by the San Diego City Employees’ Retirement System, which contains introductory information about SDCERS, financial statements of the trust and investment allocation data, actuarial assumptions and valuations, and statistical data.
The Waterfall	The procedure for allocating the investment earning of SDCERS to various system reserves, used to pay budgeted system expenses, or distributed to members as contingent benefits pursuant to section 24.1502 of the Municipal Code.
Trigger	Refers to a provision contained in MP-1 which required the City’s contributions into the System to increase if the funding ratio fell below 82.3%.
Unfunded Actuarial Accrued Liability (“UAAL”)	Excess of the actuarial accrued liability over the actuarial value of assets. This value may be negative, in which case it may be expressed as a negative unfunded actuarial liability, the excess of the actuarial value of assets over the actuarial accrued liability, or the funding excess.
United States Environmental Protection Agency (“EPA”)	A federal agency that develops and enforces regulations that implement environmental laws enacted by Congress.
User Charge System	A system that must be established under the Clean Water Act to allocate billing for sewer treatment based on proportionate use.
Vinson & Elkins Memoranda (“2005 V&E Report”)	Memoranda produced by Vinson & Elkins, dated July 15, 2005, which was never finalized.

TERM	DEFINITION
Vinson & Elkins Report ("the 2004 V&E Report")	September 16, 2004 report issued by Vinson & Elkins entitled "The City of San Diego, California's Disclosure Obligation to Fund the San Diego Employees Retirement System and Related Disclosure Practices 1996-2004 with Recommended Procedures and Changes to the Municipal Code," which concluded that the City's disclosure procedures were inadequate in major respects.
Voluntary Correction Program ("VCP")	The second component of the IRS's Employee Plans Compliance Resolution System, which allows an entity to approach the IRS with information regarding their noncompliance prior to being under investigation by the IRS.
Voluntary Disclosure Statement	A disclosure statement, other than periodic disclosure statements required by securities laws, by an issuer that discloses material information regarding the issuer's financial condition.
Waiver	The voluntary relinquishment or abandonment of a legal right or advantage.
Yellowbook	Generally accepted government auditing standards, including those embodied in "circulars" set forth by the Office of Management and Budget and in <i>Government Auditing Standards</i> issued by the United States General Accounting Office.

Appendix A-1

Report of the City of San Diego Audit Committee

Glossary of Entities

<u>ENTITY</u>	<u>RELEVANCE</u>
Black & Veatch	A consulting firm hired by the City to perform a Cost of Service Study, which was released in 2002.
Buck Consultants, LLC	SDCERS's former actuarial firm that provided recommendations and estimates related to the City's healthcare liability.
Calderon, Jaham & Osborn	The City's former external auditors.
Caporicci & Larson, CPA	The City's former external auditors.
CP Kelco	An industrial user of the City's wastewater system.
Fitch Ratings	A credit rating agency.
Gabriel, Roeder, Smith & Company	Actuarial firm hired by SDCERS.
Hamilton & Faatz, PC	A law firm hired by SDCERS to serve as its fiduciary counsel, during MP-1.
Hanson Bridgett Marcus Vlahos & Rudy, LLP	A law firm hired by SDCERS to serve as its fiduciary counsel, during MP-2.
KPMG, LLP	The City's current external auditor.
Kroll, Inc.	A firm hired by the City's Audit Committee to assist in its internal investigation.
Moody's Investors Service	A credit rating agency.
Morrison & Foerster, LLP	A law firm hired by SDCERS to serve as its counsel, prior to MP-1.
Navigant Consulting, Inc.	A consulting firm hired by SDCERS to investigate and prepare a report regarding pension funding issues.
Orrick, Herrington & Sutcliffe, LLP	A law firm hired to serve as bond and disclosure counsel to the City.

<u>ENTITY</u>	<u>RELEVANCE</u>
PinnacleOne	A consulting firm hired by the City to perform a Cost of Service Study, which was released in 1998.
Reich, Luftman, Reicher & Cohen	A law firm that conducted legal analysis to accompany the Navigant Report.
Standard & Poor's	A credit rating agency.
Towers Perrin	A professional services firm hired by the City to provide actuarial services and to analyze the amount of its healthcare liability.
Vinson & Elkins LLP	Law firm that represented the City in its SEC investigation, and also conducted an internal investigation of the City's disclosure practices.

Appendix B

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Report of the Audit Committee of the City of San Diego

Timeline of Major Events

DATE	EVENT
Oct. 6, 1980	The City Council adopts Ordinance O-15353, directing that 50% of Surplus Earnings be used to pay supplemental retiree benefits.
Jan 4, 1982	The City Council adopts Resolution R-255610, through which the City withdraws from the Social Security system and begins providing healthcare benefits to retirees.
June 1, 1982	The City Council adopts Ordinance O-15758, causing all retiree healthcare premiums to be paid out of Surplus Earnings.
Apr. 24, 1989	Draft report by Buck Consultants, SDCERS's actuarial firm, recommends both that healthcare liability be calculated on a regular basis and that it be actuarially funded.
May 14, 1991	Retirement Administrator Lawrence Grissom notes in a memorandum to Deputy City Manager Bruce Herring that the City granted substantial new retirement benefits contingent on SDCERS's agreement to convert from the EAN to PUC method of actuarial valuation.
May 23, 1991	SDCERS agrees to extend the repayment period for the UAAL by restarting the 30-year amortization period as of July 1, 1991.
Mar. 10, 1992	Deputy City Attorney Loraine Etherington (Chapin) authors an opinion describing the fiduciary implications of a SDCERS Board member taking an active role in Meet and Confer, warning "Board members act as fiduciaries to the Retirement System. Their primary loyalty is to the pensioner/beneficiaries of the Retirement System. In the meet and confer process, however, the bargaining representative represents either the employer or the employee. The best interests of the plan at the negotiating table are not necessarily compatible with those fiduciary responsibilities."
May 26, 1992	The City Council adopts Ordinance O-17770, creating a new system of bifurcated payments of retiree healthcare benefits.

DATE	EVENT
Nov. 4, 1992	The California Constitution is amended to add the California Pension Protection Act, Prop. 162 § 4, providing retirement boards with “plenary” authority over the assets and the administration of the retirement system and declaring that a board’s duty to its participants and its beneficiaries takes “precedence over any other duty.”
Sept. 30, 1993	The City issues its Official Statement for \$250,000,000 Public Facilities Financing Authority of the City of San Diego, Sewer Revenue Bonds, Series 1993.
Feb. 7, 1994	City Manager Jack McGrory writes a memorandum to SDCERS via Retirement Administrator Grissom asking that the Board not approve the June 30, 1993 valuation until the City has time to review the “impact of increased costs to the General Fund as a result of the significant changes in the actuarial methodology contained in the valuation.”
May 26, 1994	The SDCERS Board approves the City’s request to use approximately \$10 million in Surplus Earnings for a one-time reduction in the City’s pension contribution, if SDCERS’s fiduciary counsel approves.
Sept. 30, 1994	State Water Resources Control Board Revenue Program Specialist Ronald Blair sends a letter to City Manager McGrory directing the City to modify its agreements with the Participating Agencies to include in their billing the incremental costs associated with removing organics.
Oct. 31, 1994	Congress enacts the Ocean Pollution Reduction Act which allows cities to apply for a waiver from full secondary treatment requirements.
Feb. 24, 1995	City Auditor and Comptroller Ed Ryan advocates and votes for one-time contribution relief for the City without a fiduciary opinion at a SDCERS Board meeting.
Mar. 6, 1995	SDCERS actuary Rick Roeder issues the SDCERS Annual Actuarial Valuation for the fiscal year ended June 30, 1994.
Apr. 1995	The City applies for a waiver of the Ocean Pollution Reduction Act which will require it to remove “not less than 58% of the biological oxygen demand...in the discharge of the Point Loma Plant.”
May 9, 1995	Morrison & Foerster concludes in a letter to Retirement Administrator Grissom that the transfer of funds in the Earnings Stabilization Reserve to the Employer Contribution Reserve would violate the Board’s fiduciary duties.

DATE	EVENT
May 19, 1995	Morrison & Foerster presents the SDCERS Board with its adverse opinion regarding one time contribution relief. A motion is made to obtain a second opinion but fails because the motion is not seconded.
Aug. 22, 1995	Morrison & Foerster writes a letter to Retirement Administrator Grissom opining that the use of bifurcated payments for retiree healthcare is legally problematic.
Nov. 9, 1995	The City's waiver under the Ocean Pollution Reduction Act is granted.
Dec. 6, 1995	The City issues its Official Statement for \$350,000,000 Public Facilities Financing Authority of the City of San Diego, Sewer Revenue Bonds, Series 1995.
Jan 24, 1996	The SEC issues a well-publicized Report of Investigation for Orange County emphasizing "the responsibilities under the federal securities laws of local government officials who authorize the issuance of municipal securities and related disclosure documents."
April 23, 1996	City Attorney John Witt writes a letter to the SDCERS Board in which he recuses himself from opining on the legality of MP-1 because MP-1 would increase his retirement benefits. Witt also notes that MP-1 "raises important fiduciary considerations."
May 2, 1996	City Manager McGrory makes the first presentation of MP-1 to the SDCERS Board.
June 11, 1996	At a SDCERS Board meeting, SDCERS actuary Roeder states that MP-1 "is a sound proposal as long as the funded ratio does not drop significantly, and with the appropriate sunset provisions in place." Roeder also states that under MP-1, "some of these costs will be borne by the future generation." Fiduciary counsel Dwight Hamilton opines that MP-1 raises "red flags" in his mind related "to the board's duty of loyalty to the integrity of the fund."
June 21, 1996	Fiduciary counsel Hamilton and John Graham reverse course and issue a positive opinion about MP-1 due to the revision to allow the City's contributions to reflect changes in actuarial assumptions until 2009. Fiduciary counsel writes to Retirement Administrator Grissom, "[T]he Board [is] acting within the discretion granted...and discharging its fiduciary duties set forth in Article XVI, Sec. 17, of the California Constitution."

DATE	EVENT
June 21, 1996	At a SDCERS Board meeting, the MP-1 proposal is approved by the SDCERS Board with a vote of 8 to 3 (in favor: Webster, Herring, Wilkinson, Scannell, Enerson, Saathoff, Torres and Jamison; opposed: Katz, Parode and Barnett).
June 21, 1996	Deputy City Auditor and Comptroller Terri Webster e-mails City Manager McGrory regarding protections needed “to give as much breathing room from the 10% deal breaker,” referring to calculating the trigger as low as possible.
July 2, 1996	The City Council adopts Resolution R-287582, by which the tentative Meet and Confer agreements for Fiscal Year 1998 reached between the City and the labor unions are approved.
July 23, 1996	Retirement Administrator Grissom writes a memorandum to Labor Relations Manager Cathy Lexin enclosing a modified June 21, 1996 MP-1 proposal. The proposal includes a requirement that the City restore fully SDCERS funding to an 82.3% ratio if the trigger is hit no later than July 1 of the year following the date of the actuarial valuation in which the shortfall in the funded ratio is calculated.
July 30, 1996	The City Council adopts Ordinance O-18329, which places a Charter amendment on the ballot to amend San Diego City Charter § 141 to authorize the City Council to pay health insurance benefits through SDCERS (Proposition D).
Nov. 5, 1996	Responsibility for paying retiree healthcare is transferred from the City to SDCERS by voter approval of Proposition D. Proposition D passed by a vote of 231,410 to 88,537.
Nov. 5, 1996	California voters pass Proposition 218, an amendment to the California Constitution. Proposition 218 requires, among other things, that fees and charges be assessed proportionately against property owners and that noticing take place before certain fees are increased.
Nov. 27, 1996	The City’s Fiscal Year 1996 CAFR is published. It falsely indicates that the City paid for post-retirement healthcare benefits. This false statement remains in the City’s CAFRs through 2002.
Dec. 9, 1996	The City Council adopts Resolution R-288173, declaring voter approval of Proposition D.
Feb. 25, 1997	The City Council adopts Ordinance O-18383, amending the Municipal Code to account for the new benefits agreed upon during Meet and Confer.

DATE	EVENT
Mar. 20, 1997	At a SDCERS Investment Committee Meeting, Retirement Administrator Grissom states that surplus is not considered “excess” earnings until the pension system’s funded ratio exceeds 100%.
Mar. 31, 1997	The City Council adopts Ordinance O-18392, establishing a separate trust account within SDCERS, pursuant to IRC § 401(h), to be used for funding retirement healthcare benefits.
May 15, 1997	The City issues its \$250,000,000 Public Facilities Financing Authority of the City of San Diego, Sewer Revenue Bonds, Series 1997A and Series 1997B. The City first takes the position that Proposition 218 does not likely apply to sewer charges, but it would nevertheless follow its requirements, since doing otherwise could negatively impact bond issuances.
July 3, 1997	Financial and Technical Services Manager Patricia Frazier writes to Deputy City Manager Coleman Conrad in a memorandum that “In order to comply with SWRCB Revenue Program Guidelines, we will need to revise our methodology for strength based billing of [the City’s] customers. . . . Pursuant to SWRCB guidelines, we will need to incorporate a third loading factor - COD/BOD.”
July 9, 1997	Deputy City Manager Conrad forwards Financial and Technical Services Manager Frazier’s July 3, 1997 memorandum to Deputy City Manager George Loveland and MWW Director Dave Schlesinger asking for a recommended action plan and timeline by August 8, 1997.
Nov. 21, 1997	The City’s Fiscal Year 1997 CAFR is published and its pension plan note contains the following reference to SDCERS financial reports: “SDCERS is considered part of the City of San Diego’s financial reporting entity and is included in the City’s financial reports as a pension trust fund. SDCERS issues a stand-alone financial report which is available at its office.” The City fails to record in its CAFR an NPO of at least \$6 million. A disclosure regarding Proposition 218 is added to the City’s CAFR, but it does not disclose the City’s violation of the conditions of its grants and loans.
Mar. 31, 1998	City Auditor and Comptroller Ryan e-mails Deputy City Auditor and Comptroller Webster about his concern that “when we book the NPO the rating agencies won’t like it...As we market a large amount of bonds it might cost us a lot of money.”

DATE	EVENT
May 14, 1998	City Manager Michael Uberuaga writes a memorandum to SDCERS Board President Keith Enerson about the City's agreement to tap Surplus Earnings to establish a reserve to ensure that cost-of-living adjustments would be available to protect the real value of retirees' benefits, and to establish an additional reserve to pick up a portion of the employees' contributions to SDCERS going forward. SDCERS actuary Roeder and outside counsel Robert Klausner approve of these aspects of the City's agreement on May 29, 1998 and June 10, 1998, respectively.
May 14, 1998	PinnacleOne, a consultant to the City, issues a Cost of Service Study, confirming the City's need to change its rate structure to comply with SWRCB requirements.
July 16, 1998	The <i>Corbett</i> complaint is filed against SDCERS and the City is named as a party shortly thereafter on October 28, 1998.
Nov. 25, 1998	The City's Fiscal Year 1998 CAFR is published. This is the first time that MP-1 is disclosed in any of the City's CAFRs or other publicly filed financial documents. This disclosure is insufficient in numerous respects.
Mar. 2, 1999	The City issues its Official Statement for \$315,410,000 Public Facilities Financing Authority of the City of San Diego, Sewer Revenue Bonds, Series 1999A and Series 1999B.
Oct. 6, 1999	Deputy City Manager Loveland distributes the PinnacleOne Cost Of Service Study to the Mayor and the City Council with a cover letter that notes that the sewer rate structure is "consistent with the requirements of Proposition 218. This being the case, no changes are needed or recommended at this time."
Oct. 20, 1999	E-mail from Water Rate Analyst Christine Ruess to Rate Supervisor Dennis Kahlie details Councilmember Christine Kehoe's questions about the Cost of Service Study. Deputy City Manager Frazier (through Water Rate Analyst Ruess) states that the Cost of Service Study "did not justify changing the rate structure," and that the purpose of the Cost of Service Study is to "simply justify our existing structure...[and] to make sure that we were complying with Proposition 218, etc."
Nov. 1999	Deputy City Attorney Ted Bromfield writes a memo to Councilmember Kehoe stating: "Since the City must comply with federal and state guidelines by virtue of its grant funding, the [Cost of Service Study] recommends a revised rate structure to include organic loading for all wastewater users."

DATE	EVENT
Mar. 14, 2000	The City decides in closed session to settle the <i>Corbett</i> litigation.
Mar. 30, 2000	SDCERS actuary Roeder sends a letter to Retirement Administrator Grissom indicating that SDCERS treated the <i>Corbett</i> liability as contingent and did not include it in the funded ratio. The letter also indicates that the non-contingent portion of the liability in March 2000 was \$102 million for current employees and the contingent portion of the liability for retired and vested deferred members was an additional \$84 million. The letter states that while the contingent Corbett liability is not included in the funded ratio, "...we do wish to state the funded ratio would have declined further to 87.2%" if <i>Corbett</i> had been reflected.
Apr. 5, 2000	The City discusses <i>Corbett</i> in a Continuing Disclosure Annual Report but does not accurately disclose it.
Apr. 6, 2000	Deputy City Auditor and Comptroller Webster e-mails Deputy City Manager Herring, cc to Labor Relations Manager Daniel Kelley and City Auditor and Comptroller Ryan, that the City's method of satisfying the City Council's directive not to allow the funded ratio to fall below 90% is misleading and recommends advising the City Council of how its mandate had been met to avoid surprises later.
Apr. 13, 2000	Memorandum from Deputy City Manager Herring to, among others, City Attorney Casey Gwinn, discusses the <i>Corbett</i> settlement and attaches the March 30, 2000 letter from SDCERS actuary Roeder relating that the <i>Corbett</i> liabilities are being treated as contingent.
May 17, 2000	Order and Judgment approving settlement of <i>Corbett</i> is issued.
June 30, 2000	SDCERS total return on investments for Fiscal Year 2000 is reported at 14.93%.
Sept. 14, 2000	The Sewer Cost of Service Stakeholders' Group holds its first meeting.
Oct. 2, 2000	Rate Supervisor Kahlie notes in an e-mail that Revenue Program Specialist Blair was confused about whether the City was charging its sewer users for Chemical Oxygen Demand like the Participating Agencies were doing.
Nov. 7, 2000	Council members Scott Peters, Toni Atkins, Brian Maienschein, and James Madaffer win election to the City Council. Richard Murphy is elected Mayor.

DATE	EVENT
Nov. 30, 2000	The City's Fiscal Year 2000 CAFR is published. The City discloses <i>Corbett</i> for the first time in its CAFR. This disclosure is inadequate because it only states, "On November 17, 2000, the SDCERS made a \$23,623,562 payment to retirees, based upon the Corbett lawsuit," and provides no other details, including that Corbett is a recurring liability.
Jan. 2001	Mayor Murphy calls for the Blue Ribbon Committee to perform an independent evaluation of the City's current fiscal health and to make appropriate recommendations.
Apr. 27, 2001	Mayor Murphy appoints the members of the Blue Ribbon Committee.
May 3, 2001	The Sewer Cost of Service Stakeholders' Group issues its final report.
June 30, 2001	SDCERS total return on investments for the fiscal year ended June 30, 2001 is reported at -.45%, down from 14.93% the previous year.
Aug. 31, 2001	Deputy City Auditor and Comptroller Webster's handwritten notes regarding a Blue Ribbon Committee meeting state, "Brought up by committee: timing + content of report" and "don't want to mess w/ballpark bonds."
Sept. 2001	Blue Ribbon Committee is originally scheduled to complete its report.
Sept. 4, 2001	Deputy City Auditor and Comptroller Webster e-mails Blue Ribbon Committee member Richard Vortmann expressing that "Generally Accepted Accounting Principles for Government and Pensions does not require booking health future costs nor is it required that health be actuarially funded."
Sept. 10, 2001	Deputy City Auditor and Comptroller Webster again notes her concern about the Ballpark Offering, writing, "Per Joe – knows about ballpark 10-21-01 Report will <u>not</u> come out before that...does <u>not</u> want to start with all is doom + gloom..."
Oct. 9, 2001	E-mail from Deputy City Auditor and Comptroller Webster to City Auditor and Comptroller Ryan states "Cecilia advised that YTD earnings as of August 31, 2001 in the CERS Trust fund is about \$15m compared to \$53m same time 2000...a 71% drop! BEFORE 9-11-01!"
Oct. 11, 2001	Deputy City Auditor and Comptroller Webster e-mails Labor Relations Manager Lexin stating that earnings in the CERS Trust fund had dropped 71% and that, "It will be tight to even meet the base undistributed earnings distributions for FY 02."

DATE	EVENT
Nov. 6, 2001	Assistant City Attorney Leslie Girard distributes the Bryan Cave LLP disclosure memorandum to the Mayor and the City Council that states it is being distributed prior to the closed session meeting of the City Council. At the closed session, a presentation for the Council is conducted by Gerald Boltz and Mathew Anhut of Bryan Cave LLP stressing the requirements of the federal securities laws. City outside bond counsel Paul Webber and Girard also attend.
Dec. 2001	Blue Ribbon Committee meetings, which had been suspended, resume.
Dec. 3, 2001	Deputy City Auditor and Comptroller Webster e-mails Retirement Administrator Grissom, cc to Labor Relations Manager Lexin, stating that year-to-date earnings at October 31, 2001 was “only \$14.1 million compared to \$107m last year same time. A 87% decrease! EEEK!”
Dec. 6, 2001	A memorandum from the City Attorney to the Mayor and the City Council advises the City to continue to comply with the noticing and “proportional cost of service” provisions of Proposition 218 for sewer charges.
Dec. 31, 2001	Deputy City Auditor and Comptroller Webster complains to Blue Ribbon Committee Chair Joe Craver about Blue Ribbon Committee member Vortmann’s “doom and gloom” tone of the pension portion of the Blue Ribbon Committee report and asks Craver to “talk to Dick before Fri and turn him.”
Jan. 3, 2002	Deputy City Auditor and Comptroller Webster e-mails City Auditor and Comptroller Ryan noting the “SERIOUS consequences” concerning funding the basic retirement benefits, especially the declining ability to fund the Waterfall benefits.
Jan. 15, 2002	Assistant City Manager Lamont Ewell congratulates Deputy City Auditor and Comptroller Webster in an e-mail for “mastermind[ing] . . . an incredible attitudinal turn around of the [Blue Ribbon C]ommittee!”
Jan. 29, 2002	A City Council closed session occurs to discuss whether the City would continue to comply with the noticing and proportionate billing requirements of Proposition 218. with respect to sewer rate setting The Council and the Mayor are told that the City’s sewer rate structure does not allocate costs proportionately and violates covenants in connection with hundreds of millions of dollars of grants and loans. The Council votes to “note and file” the issue and requests further review of it from the City Attorney’s Office.

DATE	EVENT
Jan. 29, 2002	Councilmember James Madaffer e-mails Utilities Finance Administrator Kahlie thanking Kahlie for “your direct answers and sticking to your position...we can’t say we weren’t given a fair warning.”
Feb. 1, 2002	Utilities Finance Administrator Kahlie e-mails City Treasurer Mary Vattimo and Deputy City Manager Frazier warning that the State Revolving Fund grant applications will be disapproved “when SWRCB finds out that the Council doesn’t care to live up to its contractual obligations with respect to ratesetting...”
Feb. 12, 2002	Retirement Administrator Grissom informs Deputy City Auditor and Comptroller Webster that the finalized actuarial report for Fiscal Year June 30, 2001 showed a \$200 million loss, dropping the SDCERS funded ratio to 90%. Webster e-mails City Auditor and Comptroller Ryan and reminds him of the 82.3% trigger. Webster also e-mails City Treasurer Vattimo asking her to have the SDCERS staff or Board “direct” SDCERS actuary Roeder to advise them as to his estimated funded ratio for Fiscal Year 2002, alerting her that the “82% trigger point is looking WAY too close.”
Feb. 12, 2002	SDCERS actuary Roeder issues the June 30, 2001 SDCERS Annual Actuarial Valuation to the SDCERS Board showing the plan’s funded ratio as of June 30, 2001 dropped from 97.3% to 89.9% and the UAAL increased from \$68.96 million to \$283.89 million.
Feb. 15, 2002	The Ballpark Bond Offering closes.
Feb. 18, 2002	SDCERS Board member Vortmann’s letter to SDCERS Board Chairman Frederick Pierce states, “A funded ratio at 85.6% is getting close to the 82.3% trigger...”
Feb. 27, 2002	The Blue Ribbon Committee presents its findings to the City Council Committee on Rules Finance and Intergovernmental Relations (“Rules Committee”) and the Mayor, sharing its conclusions concerning the City’s pension system and making recommendations for improvement. Mayor Murphy directs City Manager Uberuaga to present a response to the Blue Ribbon Committee Report at the March meeting of the Rules Committee.
Feb. 27, 2002	Deputy City Auditor and Comptroller Webster e-mails Retirement Administrator Grissom imploring him to come up with projections and solutions regarding a large decline in SDCERS earnings, “Yes PLEASE let me know the recommendations and ones that hopefully don’t impact funding ratio.”

DATE	EVENT
Feb. 28, 2002	Deputy City Auditor and Comptroller Webster e-mails City Auditor and Comptroller Ryan, City Treasurer Vattimo, and Labor Relations Manager Lexin, cc to Deputy City Manager Herring, informing them that Retirement Administrator Grissom spoke with SDCERS Board President Pierce and that a projected funded ratio was needed by March.
Feb. 28, 2002	City Auditor and Comptroller Ryan notes in an e-mail to Labor Relations Manager Lexin, City Treasurer Vattimo, Deputy City Auditor and Comptroller Webster, Assistant City Manager Ewell, and Deputy City Manager Herring that they “might want to use Ron Saathoff to get [the Board’s] attention.”
Mar. 4, 2002	The City files a sewer continuing disclosure that fails to disclose the City’s noncompliance with State Guidelines and resulting potential liabilities.
Mar. 13, 2002	Retirement Administrator Grissom e-mails SDCERS Board member Vortmann, cc to SDCERS Board President Pierce, that, “Under the Manager’s proposal, if the funding ratio drops to or below 82.3%, the City will be required to escalate the employer contribution from whatever the current level is to the actuarially recommended rate. No retro payment of under contributions will be required.”
Mar. 15, 2002	A memorandum and PowerPoint slides from Labor Relations Manager Kelley to the Mayor and the City Council state “‘trigger’ in Manager’s Proposal requiring City to pay full rate = 82.3% (a potential \$40m annual impact)”, making clear the likelihood that the City could owe up to an extra \$40 million to the pension the next year.
Mar. 18, 2002	Deputy City Auditor and Comptroller Webster e-mails SDCERS Board member Ray Garnica stating, “The funding ratio is dropping rapidly...If it dropped from 97.3% to 89.9% in one year and FY02 earnings are 1/5 of the FY01 earnings...then it is likely to drop real close to the 82.3% trigger,” indicating that the trigger was close to being hit. The e-mail also states, “A large drop in funding ratio or dropping below certain benchmarks could result in a negative impact to the City’s credit rating.”
Mar. 18, 2002	The City Council is informed in the Meet and Confer context that the pension funded ratio has declined significantly, to either 85.6% or 83.1%.
Mar. 20, 2002	At the Rules Committee meeting, questions concerning the City’s funding of the pension system are referred to SDCERS for further review, setting a deadline for its response of June 30, 2002.

DATE	EVENT
Apr. 15, 2002	Retirement Administrator Grissom e-mails Deputy City Auditor and Comptroller Webster advising her that recent negative developments “without any other actuarial losses or additions to liabilities for new benefits, etc. put us at about 80%” and asks her to keep the information “confidential.”
Apr. 16, 2002	SDCERS outside counsel Constance Hiatt advises the Board that the “contingent” <i>Corbett</i> liabilities are contingent in name only, stating that <i>Corbett</i> “really isn’t contingent except as to time of payment.”
Apr. 17, 2002	Deputy City Auditor and Comptroller Webster e-mails Deputy City Attorneys Elmer Heap and Michael Rivo, cc to Labor Relations Manager Lexin stating, “Does it also take a vote of the members to remove the trigger which was in the Manager’s proposal? (If it was tied to benefit increases I think it would pass...).”
Apr. 18, 2002	At a SDCERS Investment Committee Meeting, SDCERS Board member Diann Shipione states, “...the fund is in need of surplus undistributed earnings. The more surplus, the better position we are in to pay benefits.” Retirement Administrator Grissom states in response that “‘surplus earnings’ is a misnomer...this is a complicated issue that will be explained in detail at the Board meeting. However, there is usually enough cash available to cover what is needed to pay benefits. Unfortunately, the markets did poorly over the past year, which is why the Board is in the position it is now.”
Apr. 29, 2002	Blue Ribbon Committee member Vortmann writes a letter to fellow Blue Ribbon Committee members expressing his dissatisfaction with the tone of the Blue Ribbon Committee’s report, stating “I have a growing and daunting concern that we possibly did our City a disservice by not ringing a very loud bell...”
Apr. 29, 2002	The City Council approves the issuance of Lease Revenue Bonds which make no mention of the pending breach of the trigger and the resulting balloon payment.
Apr.-May 2002	The Mayor and the City Council agree in closed session to a proposal that would condition certain retirement benefits on the Board’s agreement to eliminate or reduce the MP-1 trigger. Among the new benefits agreed upon are an increase in the basic multiplier for retirement benefits for general employees from 2.25% to 2.5% and the granting of the Presidential Leave benefit for certain union presidents.

DATE	EVENT
May 13, 2002	SDCERS Board President Pierce requests and receives an extension from City Manager Uberuaga for the Board to respond to the Blue Ribbon Committee Report to September 30, 2002.
May 14, 2002	Councilmember Donna Frye asks Mayor Murphy about the status of the sewer Cost of Service Study in a Council meeting regarding the City's budget. Murphy states that the Council did not discuss the sewer Cost of Service Study at a public meeting. Deputy City Manager Loveland states that a water Cost of Service Study was underway, but makes no mention of the existence of the sewer Cost of Service Study.
May 15, 2002	On or about this date, the Black & Veatch Cost of Service Study is completed.
May 21, 2002	Deputy City Auditor and Comptroller Webster e-mails Labor Relations Manager Kelley, "...especially need Ron [Saathoff] behind releasing the trigger since he runs the show at CERS..." Labor Relations Manager Michael McGhee e-mails Webster his assurance that Firefighter Union President Ronald Saathoff is well aware of the contingent nature of the benefits.
May 29, 2002	City Manager Uberuaga presents the initial version of MP-2 to the Board that would lower the trigger to 75%.
June 4, 2002	The City issues its Official Statement for the 2002-03 Tax Anticipation Notes Series A which does not disclose the looming balloon payment resulting from the breach of the 82.3% trigger.
June 10, 2002	City Manager Uberuaga formally approaches the SDCERS Board requesting it to approve amendments to MP-1. Uberuaga notes in a memorandum to Retirement Administrator Grissom that the City is in a crisis due to two years of weak investment returns, the events of September 11th, the collapse of the dot-com industry, and significant new unfunded pension benefit obligations including the Corbett settlement.
June 12, 2002	SDCERS outside counsel Robert Blum and Constance Hiatt transmit a draft opinion letter advising the SDCERS Board that there is a "material risk" that a court would view the Board's approval of the proposed amendment to MP-1 including the reduction in the trigger to 75% as a breach of its fiduciary duties, especially if "insufficient mitigating actions were taken by the Board." The letter also estimates that the City would owe an additional \$75 million to SDCERS if the funded ratio fell to 80% by June 2003.

DATE	EVENT
June 12, 2002	SDCERS actuary Roeder makes a presentation about MP-2 to the SDCERS Board, stating that SDCERS has one of the lowest funded ratios in California on an EAN basis.
June 12, 2002	The City issues the Fire and Life Safety Facility Project, which does not disclose the looming balloon payment resulting from the breach of the 82.3% trigger.
June 18, 2002	City Manager Uberuaga's memorandum to Retirement Administrator Grissom (signed by Deputy City Manager Herring) responds to criticisms of SDCERS's fiduciary counsel and actuary regarding the proposed MP-2. Uberuaga adjusts his plan, but keeps the proposed funded floor at 75% and does not address the City's inability to meet its payment obligations.
June 21, 2002	SDCERS actuary Roeder makes a presentation critical of MP-2 at a SDCERS Board meeting. He explains he is more comfortable with leaving the 82.3% trigger in place, raises concerns regarding the "coupling of benefit increases to funding," and interprets the hitting of the trigger to require a \$75 million payment. Roeder also cautions the Board that <i>Corbett</i> liabilities are not really contingent and would decrease the funded ratio if included in the UAAL. The Board members request that the City provide it with indemnification for approval of MP-2. SDCERS Board member Shipione asks how the Board could be indemnified knowing it had breached its fiduciary duty.
July 2, 2002	Deputy City Auditor and Comptroller Webster e-mails City Auditor and Comptroller Ryan noting her concern that the rating agencies will learn about the pension funding problems stating, "the city does not need to telegraph its pension problems to the rating agencies who don't research the topic to any great level now."
July 3, 2002	A memorandum from Deputy City Manager Herring to Retirement Administrator Grissom attempts to eliminate the SDCERS Board's concerns with the initial MP-2 proposal, stating that if the new 75% "floor is effectuated, the City would begin paying a rate that would achieve full PUC actuarial rate within five years"

DATE	EVENT
July 8, 2002	Human Resources Director Lexin and Deputy City Attorney Heap write a memorandum to the City Council and the Mayor noting their concern that the SDCERS Board would not approve the MP-2 proposal as it stood and stating that the SDCERS Board's fiduciary counsel "was quite negative" because "counsel, from his perspective, did not have time to evaluate the proposal sufficiently." Lexin and Heap sought approval from the Council to support an anticipated modification of the proposal by a Board member that would leave the trigger intact but allow for a 5 year ramp-up in case the floor was breached.
July 11, 2002	At a SDCERS Board meeting, SDCERS actuary Roeder informs the Board that the trigger would likely be hit by June 2003. SDCERS outside counsel Blum states that the revised MP-2 proposal was better, but his adverse opinion had not changed. Firefighter Union President Saathoff makes a modified proposal to MP-2 keeping the trigger at 82.3% but calling for a ramp-up. Neither Roeder nor Blum opines on the proposal at the meeting, but Blum states that this version is more defensible. The Board votes and approves Saathoff's version of MP-2, contingent on a satisfactory written agreement between the City and the Retirement Board and approval by the Board's fiduciary counsel and actuary.
July 30, 2002	SDCERS outside counsel Blum acknowledges in an e-mail to Retirement Administrator Grissom, SDCERS Board member Paul Barnett and SDCERS General Counsel Chapin, cc to SDCERS outside counsel Hiatt, that Human Resources Director Lexin has a conflict of interest as a Board member negotiating the MOU's for the City.
Aug. 21, 2002	SDCERS General Counsel Chapin e-mails Assistant City Attorney Girard and others that "future meet and confer benefits involving retirement [should] not be subject to a contingency such as the Board approving requested funding changes for the System as well as prospective effective dates."
Aug. 30, 2002	Deputy City Auditor and Comptroller Webster e-mails SDCERS General Counsel Chapin, Retirement Administrator Grissom, Deputy City Attorney Rivo and Human Resources Director Lexin, cc to City Auditor and Comptroller Ryan, stating that, "...not only are earnings insufficient for the 13 th check but they are not sufficient to increase the reserve for health."

DATE	EVENT
Sept. 22, 2002	SDCERS outside counsel Blum e-mails Retirement Administrator Grissom, SDCERS Board Member Barnett, and SDCERS General Counsel Chapin asking that Human Resources Director Lexin not be given his draft opinion letter.
Oct. 21, 2002	The City Council adopts Resolution 297212, granting the union presidents of various unions the Presidential Leave benefit.
Oct. 29, 2002	Retirement Administrator Grissom e-mails SDCERS General Counsel Chapin, SDCERS Board member Barnett and SDCERS outside counsel Blum that SDCERS actuary Roeder had indicated that, based on the financial data only, the funded ratio as of January 1, 2003 would be between 80 and 82%.
Oct. 30, 2002	SDCERS outside counsel Blum e-mails SDCERS actuary Roeder that “lots of people would be very unhappy if you are unwilling to sign off on [the November 5, 2002 actuarial letter] now...” and forwards the e-mail to Grissom, noting that “rick will sign.”
Nov. 1, 2002	SDCERS’s Fiscal Year 2002 CAFR is published and discloses certain aspects of MP-2, but is silent as to the reasons for the agreement. SDCERS’ total return on investments for the fiscal year ended June 30, 2002 is a loss of 2.48%.
Nov. 5, 2002	SDCERS actuary Roeder writes an opinion letter to Retirement Administrator Grissom providing lukewarm support for MP-2 and noting that the 82.3% trigger would likely be hit by June 30, 2003.
Nov. 11, 2002	Utilities Finance Administrator Kahlie prepares, apparently at Deputy City Manager Frazier’s request, an outline summarizing the pertinent issues regarding the Cost of Service Study and the City’s noncompliance with State Guidelines: “Salient Points, Sewer Cost of Service Compliance Issue.” The memorandum states that “The City has been the recipient of some \$370 million in state and federal wastewater grants and low interest loans;” “The municipal billing structure was not brought into compliance with SWRCB requirements in 1997 because of concerns about the adverse impact of so doing on certain large volume dischargers;” “SWRCB did not take issue...because it was under the mistaken impression that the PA billing structure it had approved was applicable to the City’s municipal users as well.”

DATE	EVENT
Nov. 13, 2002	Utilities Finance Administrator Kahlie e-mails City Auditor and Comptroller Ryan, Deputy City Manager Loveland, Deputy City Attorney Kelly Salt, City Treasurer Vattimo, Deputy City Manager Frazier and Utilities General Manager Richard Mendes his "Salient Points, Sewer Cost of Service Compliance Issue" memorandum.
Nov. 14, 2002	Deputy City Attorney Salt and City Treasurer Vattimo provide a memorandum to the Mayor and the City Council stating, "MWWD has not been in compliance with Clean Water Act standards for its user charge system;" "Failure to comply...may result in litigation for repayment of the grant monies and acceleration [of the loans];" and recommending that the City bring its sewer rates into compliance with its grant and loan conditions. The memorandum is to be taken up at the November 19, 2002 closed session meeting of the City Council.
Nov. 15, 2002	At a SDCERS Board meeting, SDCERS actuary Roeder does not change his November 5, 2002 opinion providing lukewarm support for MP-2 but notes that he "hopes the Board never enters into another situation where [benefits and funding] are linked together. Doing so is very inappropriate and places the Board in a no-win situation." Head Deputy City Attorney Heap informs the Board that the City Council would consider indemnifying the Board members in connection with their approval of MP-2, on November 18, 2002. The Board votes to approve MP-2 on a vote of 10 to 2.
Nov. 18, 2002	SDCERS Fiduciary counsel Blum and Hiatt write to SDCERS Board President Pierce that, "...it would be a reasonable exercise of the Board's fiduciary duties if the Board entered into [MP-2]."
Nov. 18, 2002	At a City Council meeting, SDCERS Board member Shipione distributes and discusses a memo to the Council criticizing MP-2. The City Council nevertheless votes in favor of amending the Municipal Code to implement MP-2, adopting Ordinance O-19121. The City thus amends § 24.0801 of the Municipal Code to provide that "The City will contribute to the Retirement Fund, on behalf of Members employed by the City, the amount agreed to in the governing Memorandum of Understanding between the City and the Board." The Council also agrees that the City will indemnify the SDCERS Board should its members be sued for their support of MP-2.
Nov. 18, 2002	Council Liaison Ed Plank e-mails Labor Relations Manager Kelley and Human Resources Director Lexin tasking them with responding to SDCERS Board member Shipione's memo of November 18, 2002.

DATE	EVENT
Nov. 18, 2002	Councilmember Frye expresses her view to City Attorney Gwinn that it is improper to discuss the City's lack of compliance with State billing Guidelines in closed session.
Nov. 18, 2002	Executive City Attorney Girard responds to Councilmember Frye's November 18, 2002 letter to City Attorney Gwinn, stating that it is proper to discuss the rate structure issues in closed session in light of the potential for significant exposure to litigation.
Nov. 19, 2002	The issue of the City's noncompliance with State requirements for sewer billing is taken off the closed session agenda.
Nov. 26, 2002	Retirement Administrator Grissom apparently rebukes SDCERS actuary Roeder for having a one-on-one conversation with SDCERS Board member Shipione. Roeder e-mails Grissom, "I appreciate the formal Diann S 'policy' ...she obviously goes off the 'deep end' too much."
Nov. 27, 2002	The City's Fiscal Year 2002 CAFR is published but does not mention MP-2, and the discussion about MP-1 is incomplete. The City also deletes from its CAFR the statement referring to GASB's consideration of whether to add the "corridor funding" method to the list of approved expending methods.
Dec. 6, 2002	The City issues its response to SDCERS Board member Shipione written by Labor Relations Manager Kelley and Human Resources Director Lexin and signed by Assistant City Manager Ewell.
Jan. 9, 2003	SDCERS actuary Roeder issues SDCERS' June 30, 2002 annual valuation. It includes a finding that City employees purchased credits entitling them to additional retirement benefits estimated at \$77 million. It also shows that the funded ratio for June 30, 2002 fell below the 82.3% trigger.
Jan. 16, 2003	The <i>Gleason</i> lawsuit is filed against the City, SDCERS, and various Board members alleging breach of fiduciary duties regarding MP-1 and MP-2. A related <i>Gleason</i> suit is filed alleging that certain Board members violated the Political Reform Act and § 1090.
Jan. 22, 2003	Deputy City Manager Loveland e-mails Utilities General Manager Mendes and Chief of Staff to Mayor Murphy John Kern, stating that the Cost of Service Study is being updated and when completed, it will be presented to the Council for consideration.

DATE	EVENT
Feb. 12, 2003	SDCERS presents its response to the Blue Ribbon Committee Report to the City Council Rules Committee and estimates the retirement healthcare liability at more than \$1 billion. SDCERS estimates that the current costs of benefits funded out of Surplus Earnings to be at least \$20 million. SDCERS attributes the UAAL growth primarily to the decline of investment performance and the effects of MP-1. The Rules Committee directs City Manager Uberuaga to respond with, among other things, a fiscal plan to address the UAAL.
Feb. 26, 2003	The City is approved for a State loan for sewer improvements valued at over \$12 million. This loan is signed by Deputy City Manager Loveland and covenants that the City is in compliance with the Clean Water Act and applicable federal and state laws and guidelines.
Mar. 5, 2003	In a letter to SDCERS, SDCERS outside counsel for the Gleason litigation, Seltzer Caplan, recommends that SDCERS (1) agree that the SDCERS Board violated its fiduciary duties by acquiescing to MP-2, (2) seek to nullify MP-2, and (3) assert a cross-claim against the City for pressuring it into agreeing to MP-2.
May 29, 2003	The City issues its Official Statement for the 2003 Certificates of Participation (1993 Balboa Park and Mission Bay Park Refunding) and the offering documents fail to mention MP-2.
June 25, 2003	A presentation to rating agencies is finalized stating that the City is complying with state and federal regulations pertaining to its wastewater system.
June 27, 2003	A Fitch rating agency representative asks whether the State board has “ever not approved or had any significant input into the MWW’s rate structure?” Less than one week later, on July 1, 2003, MWW Deputy Director William Hanley writes to the Fitch representative that the State Board “has never disapproved the [City’s] rate structure.”
June 30, 2003	The City Council adopts Ordinance O-2003-161, approving the sewer bond Preliminary Official Statement, but the Preliminary Official Statement is soon thereafter pulled when SDCERS Board Member Shipione identifies errors in the offering documents.
July 2003	Mayor Murphy decides to create a Pension Reform Committee to study the City’s pension problem.
Aug. 4, 2003	Kelco representative David McKinley writes a letter describing Kelco’s goal “to maintain the status quo” for sewer rates “by preventing the COD charge issue from moving forward...”

DATE	EVENT
Sept. 5, 2003	SDCERS Board member Shipione e-mails Retirement Administrator Grissom, Mayor Murphy, SDCERS actuary Roeder and SDCERS Board President Pierce that the Sewer Revenue Bond disclosures are inaccurate because they continue to state, among other things, “The actuary believes the corridor funding method is an excellent method for the City...”
Sept. 9, 2003	The City Council adopts Resolution R-298359, creating the Pension Reform Committee.
Sept. 9, 2003	SDCERS actuary Roeder learns of statements in the City’s disclosures which he believes to be false. On September 10, 2003, he e-mails Retirement Administrator Grissom, Deputy City Auditor and Comptroller Webster, and SDCERS Board member Barnett to inform them of the errors, stating that he does not agree that the statement, “Corridor funding is an excellent method for the City” is appropriate because the City modified the trigger by implementing MP-2.
Sept. 12, 2003	In the context of a request from outside counsel for information responding to an interrogatory from the Gleason litigation seeking the justification for MP-2, Retirement Administrator Grissom admits to SDCERS’s outside counsel Mike Leone in an e-mail that there was “very little justification” for MP-2.
Sept. 24, 2003	Members of the Pension Reform Committee are appointed by Mayor Murphy.
Oct. 17, 2003	The Black & Veatch Cost of Service Study is completed and forwarded to the Public Utilities Advisory Commission instead of being docketed for City Council consideration.
Nov. 26, 2003	Sanitary Engineering Associate Blair writes to City Manager Uberuaga that the SWRCB is unable to find any documentation in its files showing the City has implemented a compliant rate structure. Blair gives the City 90 days to submit the ordinance enacting appropriate rates.
Dec. 1, 2003	SDCERS’s Fiscal Year 2003 CAFR is published and mentions MP-2, but is silent as to the reasons for the agreement. SDCERS also does not mention in its CAFR that the funded ratio had fallen below the trigger or the resulting impact of the decline on the City’s contribution rate. By this time, the funded ratio has dropped from 89% to 77% and the UAAL has grown from \$283 million to \$720 million.

DATE	EVENT
Dec. 10, 2003	City outside bond counsel Webber expresses his concerns to Deputy Director of Financial Services Lakshmi Kommi, cc to City Treasurer Vattimo that the City should have an idea what the general fund exposure might be for retirement healthcare costs, even though the City does not have a requirement to determine such costs on an actuarial basis.
Jan. 8, 2004	Senior Deputy City Manager Loveland sends a letter (authored by Utilities Finance Administrator Kahlie) to Sanitary Engineering Associate Blair conceding that municipal compliance is not yet accomplished and the City cannot meet Blair's 90 day timeframe.
Jan. 22, 2004	The Pension Reform Committee presents an interim report to the City Council discussing the presentations by the Retirement Board the Committee has received regarding pension issues. The Report states that the SDCERS Retirement Board "has commissioned three audits on the Retirement System: a) actuarial, b) investment operations, and c) best practices" and that "The Committee is hopeful that the findings from the audits will be available for review by April, 2004."
Jan. 27, 2004	The City files a Voluntary Disclosure with Nationally Recognized Municipal Securities Information Repositories correcting the various deficiencies in previous filings regarding pension and other issues.
Feb. 11, 2004	Councilmember Frye tells the City's outside bond counsel Webber about the City's noncompliance with the sewer rate structure and the State's demand for compliance.
Feb. 12, 2004	City outside bond counsel Webber e-mails City outside SEC counsel Paul Maco and Executive City Attorney Girard, suggesting that the City disclose its noncompliance with the sewer rate structure.
Feb. 12, 2004	The SEC serves the City with its first request for documents. The SEC subsequently serves the City with supplemental requests.
Feb. 18, 2004	The City Council engages Vinson & Elkins LLP to "conduct an internal review of City disclosure relating to pension matters in its municipal bond offerings from 1996 to the present and prepare a report with observations, conclusions and recommendations." Vinson & Elkins LLP is also representing the City in the SEC's investigation.
Mar. 12, 2004	The City files a second Voluntary Disclosure with Nationally Recognized Municipal Securities Information Repositories.

DATE	EVENT
Mar. 16, 2004	Sanitary Engineering Associate Blair writes to City Manager Uberuaga, stating that “revised rates must be implemented for the 2004-2005 fiscal year” and that the City had 90 days to submit an adopted ordinance or resolution providing for a revised rate structure.
Mar. 26, 2004	The City’s sewer Voluntary Disclosure is issued in conjunction with its Sewer Revenue Bond Annual Report, disclosing, among other things, “the Wastewater System’s retail user charge system has not been approved and could be found not to be in compliance”
Apr. 13, 2004	KPMG is engaged by the City to audit its financial statements for the year ended June 30, 2003.
Apr. 19, 2004	The Pension Reform Committee presents its second interim report to the City Council.
Apr. 26, 2004	Utilities Finance Administrator Kahlie and City Treasurer Vattimo draft a memorandum entitled “SWRCB Grant/Loan Obligation Disclosure Issue,” which purports to answer the question, “Should Wastewater Bond/Disclosure Counsel have been aware of the situation with respect to SWRCB compliance?” It does not state that City employees ever told bond counsel about the noncompliance.
June 2004	Towers Perrin, in its role as the City of San Diego’s outside consultant, issues an estimated valuation of postretirement welfare benefit plans and estimates the City’s retiree healthcare liability to be \$753,773,223 as of June 30, 2003.
June 8, 2004	The City Council adopts Resolution R-299322, authorizing revisions to the existing wastewater fees and charges to bring the City into full compliance with the SWRCB’s requirements by October 1, 2004.
June 14, 2004	SDCERS actuary Roeder estimates retiree healthcare liability to be between \$604 and \$938 million.
June 15, 2004	Utilities Finance Administrator Kahlie transmits Resolution R-299322 to Sanitary Engineering Associate Blair, evidencing the City Council’s “adoption of the SWRCB-compliant municipal sewer rate structure.”
June 16, 2004	The <i>Shames</i> lawsuit is filed against the City alleging that residential sewer users were overcharged because of the City’s disproportionate rate structure, and seeks refunds for such overcharges on behalf of a class of plaintiffs.

DATE	EVENT
June 17, 2004	Sanitary Engineering Associate Blair writes to City Manager Ewell confirming that the “City is in compliance with all Wastewater Revenue Program requirements of the US-EPA CWG Program and the SRF Loan Program.”
July 2004	SDCERS and the City enter into a settlement agreement with the <i>Gleason</i> plaintiffs. Pursuant to the settlement, the City agreed that it would: (i) pay the full Annual Required Contribution (calculated under the PUC method) beginning in fiscal year 2006; (ii) repeal chapter 2, article 4, division 2, § 24.0801 of the Municipal Code, which had conformed the City’s contribution obligations to MP-2’s payment schedule; (iii) pay \$130 million for its fiscal year 2005 contribution to SDCERS; and (iv) provide a total of \$375 million in security interests in real property as security for its required contributions to SDCERS through fiscal year 2008. The settlement also provided that SDCERS’s UAAL amortization would be reset as of the June 30, 2004 Annual Actuarial Valuation, based on a new 30-year amortization period. Further, after fiscal year 2008, while the City would continue to contribute to SDCERS at actuarially calculated rates, the rates could finally include changed actuarial assumptions or a shortened amortization period.
July 19, 2004	The City Council adopts Ordinance O-19300 approving submission to the voters on November 2, 2004 a ballot measure concerning composition of the City Retirement Board. At the same meeting, the City Council directs the City Attorney to prepare an impartial analysis for another ballot measure that provides that Retirement Board “appointees shall not have any other personal interests which would create a conflict of interest within the duties of a Retirement Board member and trustee.”
Sept. 15, 2004	The Pension Reform Committee issues its final report. It concludes that benefit improvements accounted for 41% of the “Under-funded Problem” and makes 17 recommendations to improve the pension system.
Sept. 16, 2004	Vinson & Elkins LLP issues its report. It makes no conclusions about individual culpability and focuses on disclosure deficiencies. It makes a series of recommendations, many of which were later adopted, including the formation of a Disclosure Practices Working Group.
Oct. 1, 2004	The City’s new compliant sewer rate structure takes effect.

DATE	EVENT
Oct. 11, 2004	After several preliminary warnings, KPMG informs the City that Vinson & Elkins LLP failed to conduct an adequate investigation for KPMG to complete its audit.
Dec. 22, 2004	The US Attorney's Office for the Southern District of California begins issuing subpoenas in connection with its investigation and later issues additional ones.
Feb 1, 2005	The City Council adopts Ordinance O-19354, requiring retiree healthcare premiums to be paid from the City's General Fund.
Feb. 3, 2005	KPMG writes to Mayor Murphy, City Manager Ewell, and City Attorney Michael Aguirre stating that the fact that there were two investigations (Vinson & Elkins LLP and City Attorney's Office) underscored the importance of identifying some official body to "take ultimate responsibility for the oversight and completion of an adequate investigation."
Feb. 14, 2005	The City Council passes Resolution R-300139, authorizing the City to retain Kroll.
Mar. 8, 2005	The Audit Committee is formed through City Council Resolution R-300203.
May 17, 2005	Human Resources Director Lexin, Firefighter Union President Saathoff, SDCERS Board Member Torres, City Treasurer Vattimo, Deputy City Auditor and Comptroller Webster, and SDCERS Board Member Wilkinson are charged with various violations of Government Code § 1090, by the State of California.
July 15, 2005	Vinson & Elkins LLP issues draft memoranda summarizing its findings.
Nov. 1, 2005	The Disclosure Practices Working Group issues its first annual report addressing the City's disclosure practices and controls.
Jan 1, 2006	The Annual Report on Internal Controls is issued by the Office of the City Auditor and Comptroller.
Jan 1, 2006	The "Strong Mayor" form of government in San Diego takes effect.
Jan. 6, 2006	A federal grand jury indicts five SDCERS Board and staff members on various criminal allegations: Firefighter Union President Saathoff, Human Resources Director Lexin, Deputy City Auditor and Comptroller Webster, Retirement Administrator Grissom, and SDCERS General Counsel Chapin.

Appendix C

Appendix C

Report of the Audit Committee of the City of San Diego

Description of Relevant Individuals

NAME	DESCRIPTION
Michael Aguirre	City Attorney of the City of San Diego from December 6, 2004, to the present.
Toni Atkins	City Councilmember for District 3 from December 2000 to the present. Council Aide to Councilmember Christine Kehoe beginning in December 1993.
Stephen Austin	Member of the Pension Reform Committee. He is also a CPA and was a Managing Partner of Swenson Advisors, LLP.
Mary Ball	President of the San Diego Taxpayers Association and a member of the Blue Ribbon Committee.
Paul Barnett	SDCERS Board Member starting in at least 1995 through June 2001 as the Banker Appointee (from Wells Fargo). From September 2001 until he passed away in July 2005, he served as the Assistant Retirement Administrator of SDCERS.
Phil Blair	City Councilmember for District 5 from September 2000 to December 2000.
Ronald (“Ron”) Blair	SWRCB Program Administrator. He worked for the SWRCB from 1975 until retirement in June 2004 and was a Revenue Program Specialist from at least 1991 to 2001. He was also an Engineering Associate from about 2003 to his retirement.
Robert (“Bob”) Blum	Tax consultant and fiduciary counsel to SDCERS. In at least 2000, he was SDCERS’s consultant and was affiliated with Mercer, Inc. At the time of MP-2, he provided legal services to SDCERS and was affiliated with the law firm Hanson Bridgett Marcus Vlahos Rudy, LLP.
Clay Bingham	City employee since 1975; Supervising Analyst in the Police Department, 1980-1990; Supervising Management Analyst for the Clean Water Program/MWWD, 1990-2000; Supervising Management Analyst for MWWD and Manager of the Community Services Center at Scripps Ranch, 2000-2005; Deputy Director of Parks and Recreation, 2005 to Present.

NAME	DESCRIPTION
April Boling	President of the San Diego Taxpayers Association and Vice Chair of the Blue Ribbon Committee. She is also a CPA and was the chair of the Pension Reform Committee.
Emily Breckenridge	Attorney, U.S. Securities and Exchange Commission.
Ted Bromfield	Senior Deputy City Attorney from 2003 to 2005 and an employee of the City Attorney's Office from 1971 to 2005. During his time in the City Attorney's Office, he served in the Criminal Division from 1971 to 1974, the Civil Rights Division from 1974 to 1975, as a City Prosecutor in the Criminal Division from 1975 to 1985; and beginning in 1999, Deputy City Attorney.
Ann Burr	SDCERS Board Member in 1995.
Robert Butterfield	Member of the Pension Reform Committee. He is also an attorney with the firm Butterfield Schechter, LLP.
John Casey	SDCERS Board Member from at least 1995 through June 2003. He worked in City Planning and Development and was a General Member Representative to the Board.
Loraine ("Lori") Chapin	SDCERS General Counsel from 1997 through 2005. Prior to 1997, she was an attorney in the City Attorney's Office. At some point during her time with the City Attorney's Office during the 1990s, she handled retirement issues. On January 6, 2006, she was indicted by the U.S. Attorney's Office for the Southern District of California.
Coleman Conrad	Deputy City Manager from 1978 to 1997; began working for the City in 1968.
Timothy Considine	Member of the Pension Reform Committee. He is also an attorney with Considine & Considine and is a CPA.
Joseph ("Joe") Craver	President and CEO of Galaxie Management and Chair of the Blue Ribbon Committee.
David ("Dave") Crow	SDCERS Board Member from 1999 through March 2005. He was the President of the Retirement Committee and the Retiree Member Representative to the Board.
Troy Dahlberg	National Director of Kroll, Inc.'s Forensic Accounting and Litigation Consulting Practice and member of the three-person Audit Committee of the City of San Diego.

NAME	DESCRIPTION
Daniel (“Dan”) Deaton	Attorney with Orrick Herrington & Sutcliffe, LLP (outside disclosure counsel to the City) from at least 2003 to 2005.
Leslie Devaney	Attorney in the City Attorney's Office since 1985. During that time, she served in the Criminal Division from 1985 to 1986, the Civil Division from 1986 to 1992, and Executive Assistant City Attorney from 1996 to 2003. Most recently, she worked on City Attorney Michael Aguirre's transition team from 2004 to 2005.
Steven DeVetter	KPMG Audit Partner involved in the audit of the City of San Diego’s financial statements.
Stanley (“Stan”) Elmore	Member of the Pension Reform Committee and a past President of the Retired Fire & Police Association.
Keith Enerson	SDCERS Board Member from at least 1995 through November, 1999. He was the President of the Board from at least 1997 through November 1999 and a past President of the Retired Fire & Police Association.
Richard Enriquez	Grants Administrator for the Metropolitan Wastewater Department from at least 1992 to the present. He has been an employee of the City of San Diego since 1976.
P. Lamont Ewell	City Manager from April 2004 through 2005. Prior to this, he was the Assistant City Manager (to City Manager Michael Uberuaga) from January 2001 to April 2004.
Leslie Finertie	Consulting Actuary from Towers Perrin from at least May 2003-February 2004.
Patricia (“Pat”) Frazier	Deputy City Manager (Finance) from 1997 through 2004. Prior to this, she was the Financial Management Director starting in 1986. During 2005, she served in a role as the Deputy City Manager of Planning, Development, and Neighborhood Code Enforcement.
Donna Frye	City Councilmember for District 6 from June 2001 to the present.
Mick Gammon	Supervising Management Analyst from at least August 1997 to Present; City employee from at least 1994 to Present.
Ray Garnica	SDCERS Board member from October 2001 through 2004 as the Banker Appointee (from United California Bank).

NAME	DESCRIPTION
Dennis Gibson	Senior Policy Advisor to Mayor Murphy from January 2001 to 2005 and the City Ballpark Administrator since 2005. Prior to that, he served as the Special Projects Manager in the City Manager's Office from 1996 to 1999 and the Business Operations Manager for the Water Department from 1999 to 2001.
Leslie ("Les") Girard	Executive Assistant City Attorney in the City Attorney's Office from approximately 2004 to 2005. Prior to that, he served as the Assistant City Attorney for Special Projects from 1996 to September 2004, an Attorney in the Criminal Division from 1981 to 1992, and an Attorney in the Civil Division from 1992 to 1996.
Susan Golding	Mayor of San Diego from 1992 to 2000. Prior to that, she was on the Board of Supervisors for County of San Diego from 1984 to 1992.
Cruz Gonzales	SDCERS Board Member at least from the beginning to the end of 1995.
Rudy Graciano	Division Manager of General Accounting Division from May 2004 to the present. He also served as the Principal Accountant for Accounting Operations from 1995 to May 2004. He has been an employee of the City of San Diego since 1988.
Hedy Griffiths	Supervising Management Analyst, Agency Contracts from at least 1995 through 2005. She has been an employee of the City of San Diego since 1985.
Lawrence ("Larry") Grissom	SDCERS Administrator from 1987 through 2005.
Casey Gwinn	City Attorney of the City of San Diego from 1996 through 2004.
Dwight Hamilton	Partner, Hamilton & Faatz, and SDCERS outside fiduciary counsel from 1996 to 1997.
William ("Bill") Hanley	Deputy Director, Services and Contracts, Metropolitan Wastewater Department from August 1990 to February 2005.
Scott Harvey	City Councilmember for District 2 from January 1995 to November 1995.
Elmer Heap	Attorney in the City Attorney's Office. Handled retirement issues at some point between the 1990s and today.
Bruce Herring	Deputy City Manager (Operations) from March 1991 to July 2005. He was an SDCERS Board Member from 1996 through 2000 as the City Manager's Representative.

NAME	DESCRIPTION
Constance (“Connie”) Hiatt	Attorney with Hanson Bridgett, outside fiduciary counsel to SDCERS during MP-2.
Charles Hogquist	SDCERS Board Member from August 2003 to April 2005. He has been an employee of the San Diego Police Department since 1978 serving as a Police Officer from 1978 to 1984, a Sergeant from 1984 to 1992, and a Lieutenant from 1992 to the present.
Ralph Inzunza	City Councilmember for District 8 from March 2001 to July 2005.
Lisa Irvine	She was most recently the Deputy City Manager (Finance) from the end of 2004 until as late as early 2006. Prior to that and from 2001 to 2004, she was the Director of Financial Management. With the exception of an 18-month absence, she has worked for the City since 1986.
Judith (“Judie”) Italiano	President and General Manager of the Municipal Employees’ Association. She was also a Member of the Pension Reform Committee.
Conny Jamison	SDCERS Board Member from 1982 through May 2001 as the City Treasurer’s Representative (she was the City Treasurer at the time). Prior to this, she was an Economist at the City from 1978 to 1979 and a Supervising Economist from 1979 to 1982.
Dennis Kahlie	Utilities Finance Administrator from 2002 to 2005. Prior to that, he was a Rate Analyst from 1978 to 1996 and a Rate Supervisor from 1996 to 2002. He has been an employee of the City of San Diego since 1975.
Gary Kaku	SDCERS Board member from at least 1995 through 1996.
Jack Katz	SDCERS Board member from at least 1995 through 1998 as the Retiree Member Representative. He was formerly the head Deputy City Attorney.
Karen Keese	Not a City employee. Her background includes the following: Finance Manager, Encina Wastewater Treatment Plant from 1978 to 1983, Finance Manager, Monterey Regional Water Pollution Control Agency from 1983 to 1988, Owner, The Keese Company from 1988 to 2002, and PBS&J from 2002 to the present.
Christine Kehoe	City Councilmember for District 3 from September 1993 through December 2000.
Daniel (“Dan”) Kelley	City Labor Relations Manager from September 1998 to December 2002.

NAME	DESCRIPTION
Elizabeth Kelly	Most recently and from November 2001, she has been the Manager of the Financial Services, Special Districts/Projects Section. She has held a number of positions at the City since 1990.
John Kern	Chief of Staff for Mayor Murphy from 2000 to 2005. Prior to that, he served as the Chief of Staff for Councilmember Larry Stirling from 1979 to 1981, Chief of Staff for Councilmember Richard Murphy from 1981 to 1985, Chief of Staff for Councilmember Judy McCarty from 1985 to 1989, and Campaign Manager for Richard Murphy in 2000.
Robert Klausner	Former outside fiduciary counsel to SDCERS (1998). He was not licensed to practice law in the state of California.
Lakshmi Kommi	Deputy Director of Financial Services from 2002 to the present. Prior to that she was a First Line Supervisor from 2001 to 2002 and has been employed by the City since 1994.
Alan Langworthy	Deputy Director of the Metropolitan Wastewater Department from 1995 to the present. Prior to that, he was a Chemist, a Supervising Chemist, and a Senior Chemist in the Water Department between 1977 and 1986 and was the Deputy Director of Water Utility Department from 1986 to 1995.
Jeffrey Leavitt	Attorney at Jones, Day, Reavis & Pogue, outside counsel to the City of San Diego during 1996.
Sheila Leone (Jacobs)	SDCERS Associate General Counsel from 1999 to the present. Sheila Leone was her married name. After her divorce, she changed her name back to Sheila Jacobs.
Arthur Levitt	Former Chairman of the U.S. Securities and Exchange Commission from July 1993 to February 2001. Senior Member of the three-person Audit Committee of the City of San Diego.
Charles Lewis	City Councilmember for District 4 from December 2002 to August 2004.
Cathy Lexin	City Human Resources Director from December 2001 through mid-2005. She had previously occupied various other positions with the City including Labor Relations Manager from June 1994 through June 1998. She also served on the SDCERS Board from 2001 through 2004 as the City Manager's Representative.

NAME	DESCRIPTION
William (“Bill”) Lopez	SDCERS Board member from November 2004 through the present as the City Manager’s Representative (until the City switched to the Strong-Mayor form of government in 2006). He has also worked in the Risk Management Department at the City.
George Loveland	Assistant City Manager from 2004 to 2005. Prior to that, he was a Deputy City Manager in 1999 and a Senior Deputy City Manager from 2000 to 2004. He began working for the City in 1967.
Paul Maco	Partner at the law firm of Vinson & Elkins, counsel to the City of San Diego. Vinson & Elkins was engaged to represent the City before the U.S. Securities and Exchange Commission and also to conduct an internal investigation of the City’s pension underfunding issues. He authored Vinson & Elkins’s Investigative Report on the City of San Diego, dated September 16, 2004, and a series of Summary Memoranda issued in draft form on July 15, 2005.
James (“Jim”) Madaffer	City Councilmember for District 7 from December 2000 to the present. He was Councilmember Judy McCarty’s Chief of Staff from 1993 through 2000.
Brian Maienschein	City Councilmember for District 5 from December 2000 to the present.
Harry Mathis	City Councilmember for District 1 from September 1993 to December 2000.
Judy McCarty	City Councilmember for District 7 from November 1985 to December 2000.
William McCurine, Jr.	Member of the Blue Ribbon Committee. He was also a partner at the law firm of Solomon, Ward, Seidenwurm & Smith, LLP.
Michael (“Mike”) McGhee	Labor Negotiator for the City at least during 2001 and 2002. He has been the Labor Relations Manager since at least 2004 and continues to serve in that role.
John (“Jack”) McGrory	City Manager from March 1991 through September 1997.
David McKinley	Environmental Manager, San Diego Plant, ISP Alginates from at least 1998 to 2000.
Richard Mendes	Deputy City Manager from 2004 to the present. Formerly, he was the San Diego Utilities General Manager, serving in that capacity from October 2001 until 2004.
Steven Meyer	SDCERS Board member from July 2003 to the present.

NAME	DESCRIPTION
Darlene Morrow-Truver	Deputy Director of Services and Contracts, Metropolitan Wastewater Department from August 2005 to the present. Prior to that, she was the Audit Division Manager from 2001 to July 2004 and the Acting Assistant Auditor and Comptroller from July 2004 to August 2005. She has been an employee of the City of San Diego since 1981.
Richard (“Dick”) Murphy	Mayor of the City of San Diego from 2000 to July 2005. Prior to that, he served as a City Councilmember for District 7 from 1980 to 1985, California Municipal Court Judge from 1985 to 1989, and Superior Court Judge from 1989 to 2000.
Ann Parode	SDCERS Board Member from April 1996 through March 1997 as a Citizen Appointee.
Scott Peters	City Councilmember for District 1 from December 2000 to the present.
Frank Peters	Revenue Program Coordinator, SWRCB at least during 1991.
Michael (“Mike”) Phillips	Principal Accountant in the Accounts Payable Department at the City from post-1996 to 2000.
Phillip (“Phil”) Phillips	Manager of the Accounting Division of the City Auditor and Comptroller’s Office until retiring in 2004. He began working for the City of San Diego in 1972.
Frederick (“Fred”) Pierce, IV	SDCERS Board member from July 1997 through March 2005 as a Citizen Appointee. He was also the President of The Pierce Company.
Ed Plank	Council Liaison to the City Manager’s Office at least during 2001.
Andrew Poat	Member of the Blue Ribbon Committee. He was also a former Deputy Director of CALTRANS.
Tom Rhodes	SDCERS Board member from December 1999 through July 2003. He was also a Senior Member of the Police Officers Association Board.
April Riel	Member of the Blue Ribbon Committee. She was also a CPA and Certified Fraud Examiner.
Rod Rippel	Industrial Waste Program Manager at least during 1989.
Richard (“Rick”) Roeder	SDCERS independent actuary from the firm Gabriel, Roeder & Smith, Co. He served as the SDCERS Board’s actuary for the

NAME	DESCRIPTION
	period covered by the Audit Committee's investigation.
Benito Romano	Partner at Willkie Farr & Gallagher LLP, Counsel to the Audit Committee. Mr. Romano formerly served as United States Attorney for the Southern District of New York.
Edward ("Ed") Ryan	City Auditor and Comptroller until February, 2004. He also served on the SDCERS Board prior to and through June 1995 as the City Auditor's Representative (he was the City Auditor at this time).
Ronald ("Ron") Saathoff	SDCERS Board Member prior to 1995 and through March, 2005 as the Fire Safety Member Representative. He was also the President of City Firefighters Local 145.
Kelly Salt	Deputy City Attorney from 2002 to approximately 2005 or 2006. Prior to that, she was an Advisory Attorney in the City Attorney's Office from 1998 to 2002 and has been employed in the City Attorney's Office since 1993. She was often involved in the bond offering process for the City.
Cecilia San Pedro	Supervising Accountant in the Accounting Division and IGA (Intergovernmental Affairs) sections of the City Auditor and Comptroller's Office from 1997 to the present.
Richard ("Rick") Sauer	Partner at the law firm of Vinson & Elkins, counsel to the City of San Diego. Vinson & Elkins was engaged to represent the City before the U.S. Securities and Exchange Commission and also to conduct an internal investigation of the City's pension underfunding issues. He was involved in the preparation of Vinson & Elkins's Investigative Report on the City of San Diego, dated September 16, 2004, and a series of Summary Memoranda issued in draft form on July 15, 2005.
Robert Scannell	SDCERS Board Member beginning in at least 1993 and through 1999 as a Citizen Appointee and served as the Vice Chair in 1998 and 1999. He was employed by R.S. Consulting.
David Schlesinger	Director of Clean Water Program, Metropolitan Wastewater Department from July 1990 to retirement.
William ("Bill") Sheffler	Member of the Pension Reform Committee. He is also a Consulting Actuary with Sheffler Consulting Actuaries, Inc.

NAME	DESCRIPTION
Diann Shipione	SDCERS Board member from July 1997 to March 2005 as a Citizen Appointee. During her term on the Board, she was employed by Paine Webber and UBS.
Valerie Stallings	City Councilmember for District 6 from November 1991 to June 2001.
George Stevens	City Councilmember for District 4 from November 1991 to December 2002.
John Torres	SDCERS Board member from June 1995 through September 2005 as a General Member Representative. He is also employed by the San Diego Police Department in Forensics.
Christopher Toth	Deputy Director, Metropolitan Operations and Maintenance Division, Metropolitan Wastewater Department at least during 2000. He has been an employee of the City of San Diego since 1983.
Lynn Turner	Former Chief Accountant of the U.S. Securities and Exchange Commission from July 1998 to August 2001. Member of the three-person Audit Committee of the City of San Diego.
Michael (“Mike”) Uberuaga	City Manager from November 1997 to March 2004.
Juan Vargas	City Councilmember for District 8 from February 1993 to March 2001.
Mary Vattimo	City Treasurer from June, 2001 through 2004. She also served as the City Treasurer's Representative to the SDCERS Board during her time as City Treasurer. For the first half of 2005, she served as the Financial Management Director until her employment with the City ended (May, 2005).
Victor Vilaplana	Member of the Blue Ribbon Committee and attorney at the law firm of Seltzer Caplan McMahon Vitek.
Reginald (“Reg”) Vitek	Partner at the law firm of Seltzer Caplan McMahon Vitek, outside counsel to SDCERS.
Richard (“Dick”) Vortmann	SDCERS Board member from September 2001 through March 2005 as a Citizen Appointee. At this time, he was employed by National Steel & Shipbuilding Co. He was also a member of the Blue Ribbon Committee and the Pension Reform Committee.

NAME	DESCRIPTION
Charles Walker	Director, City of San Diego Ethics Commission from at least May, 2001 to May 2003.
Kathleen Walsh-Rotto	Member of the Pension Reform Committee. She is also a Senior Relationship Manager with Principal Financial Group.
Lincoln ("Linc") Ward	Member of the Blue Ribbon Committee and chair of Zero-Based Management Review of the Select Committee.
Barbara Warden	City Councilmember for District 5 from September 1993 to September 2000.
Dick Wasser	Chief, Construction Monitoring Unit, Division of Clean Water Programs from at least August 1992 to September 1994.
Byron Wear	City Councilmember for District 2 from November 1995 to December 2002.
Paul Webber	Partner at the law firm of Orrick Herrington & Sutcliffe, LLP, the City's outside disclosure counsel beginning in 1993.
Teresa ("Terri") Webster	Acting City Auditor and Comptroller from February, 2004 to May, 2005. Before this, she was the Assistant Auditor and Comptroller (1994 to February, 2004) and had been employed by the City since at least 1984. She also served as on the SDCERS Board from July, 1995 through March, 2005 as the City Auditor's Representative.
Sharon Wilkinson	SDCERS Board Member beginning prior to 1995 and until March 2005 as a General Member Representative. During this time, she worked for the City at Qualcomm Stadium.
John Witt	Elected City Attorney of the City of San Diego who served from 1969 to 1996.
Ed Wochaski	Principal Accountant in the City's Accounting Division (Proprietary Section) from at least 2005 to 2006. Prior to that, he was an Accountant Trainee and a Utility Accountant Trainee.
Charles ("Chuck") Woolever	SDCERS Board Member from approximately 1988 through May, 1995.
Anthony ("Tony") Young	City Councilmember for District 4 from January 2005 to the present .
Michael Young	Partner at Willkie Farr & Gallagher LLP, Counsel to the Audit Committee.

NAME	DESCRIPTION
Judy Zellers	Accountant IV in the City's Audit Division from 2001 to the present.
Michael Zucchet	City Councilmember for District 2 from December 2002 to July 2005. Prior to his term as a City Councilmember, he was Councilmember Stallings's Council Representative from August 1996 through November 1997.

Appendix D

Appendix D

Report of the Audit Committee of the City of San Diego

Interview Requests and Responses

NAME	ACCEPT/DECLINE ¹
Adachi, Eric	Accept
Anhut, Matthew	Accept
Atkins, Toni	Accept
Baber, Bill	Decline
Bingham, Clay	Accept
Blair, Ronald	Accept
Blum, Bob	Decline
Bonavolant, Carol	Accept
Bradford, Jaymie	Accept
Bromfield, Ted	Accept
Burr, Ann	Decline
Cameron, Christina	Accept
Caporicci, Gary	Decline
Casey, John	Decline
Chapin, Lorraine	Decline
Coleman, George Conrad	Accept
Cottingham, Donna	Accept
Craver, Joe	Decline
Crow, David	Decline
Devaney, Leslie	Accept
Duvernay, Richard	Accept

NAME	ACCEPT/DECLINE ¹
Enerson, Keith	Decline
Enriquez, Richard	Accept
Ewell, Lamont	Accept
Faucett, Aimee	Accept
Frazier, Patricia	Decline
Frye, Donna	Accept
Gammon, William Mark	Decline
Garnica, Ray	Decline
Gibson, Dennis	Accept
Girard, Leslie	Accept
Golding, Honorable Susan	Accept
Gonzalez, Cruz	Decline
Graciano, Rudy	Accept
Green, Larry	Decline
Griffiths, Hedy	Accept
Grissom, Lawrence	Decline
Gwinn, Casey	Decline
Hanley, Bill	Accept
Heap, Elmer	Decline
Herring, Bruce	Decline
Hiatt, Constance	Decline
Hicks, David	Decline
Hogquist, Charles	Accept
Irvine, Lisa	Accept

NAME	ACCEPT/DECLINE ¹
Italiano, Judie	Decline
Jacobs, Sheila	Decline
Jamison, Conny	Accept
Kaheny, John	Accept
Kahlie, Dennis	Accepted First Interview ²
Katz, Keri	Accepted
Keese, Karyn	Accept
Kehoe, Christine	Decline
Kelley, Daniel	Decline
Kelly, Elizabeth	Accept
Kern, John	Accept
Kommi, Lakshmi	Accept
LaBonte, Leslie	Accept
Lane, Patrick	Decline
Langworthy, Alan	Accept
Leavitt, Jeffrey	Decline
Lexin, Cathy	Decline
Loveland, George	Accept
Madaffer, James	Accept
Maienschein, Brian	Accept
Mathis, Harry	Decline
McAteer, Theresa	Accept
McCalla, Doug	Decline
McGhee, Michael	Decline

NAME	ACCEPT/DECLINE ¹
McGrory, John	Accept
McKinley, David	Decline
Mendes, Richard	Accept
Meyer, Steve	Decline
Molina-Rodriguez, Ana	Accept
Morrow-Truver, Darlene	Accept
Mullen, Donald	Accept
Murphy, Mayor Dick	Accept
Pardiwala, Sudhir	Accept
Parks, Roxanne	Decline
Parode, Ann	Decline
Peters, Scott	Accept
Phillips, Phil	Accept
Pierce, Fred	Accept
Reed-Falk, Holly	Decline
Rhodes, Thomas	Decline
Rivo, Michael	Decline
Roeder, Richard	Decline
Ruess, Christine	Accept
Ryan, Ed	Decline
Saathoff, Ronald	Decline
Sacks, Sheri	Accept
Sain, Doug	Decline
Saiz, Thomas	Decline

NAME	ACCEPT/DECLINE ¹
Salt, Kelly	Decline ³
San Pedro, Cecelia	Accept
Scannell, Robert	Accept
Schlesinger, David	Accept
Sharatz, Barbara	Accept
Shipione, Diann	Accept
Smith, Corrine	Decline
Stallings, Valerie	Decline
Stevens, George	Accept
Story, Tom	Accept
Stuiksma, Jean	Decline
Torres, John	Decline
Tulloch, Scott	Accept
Uberuaga, Mike	Decline
Van Deerlin, Jeff	Decline
Vattimo, Mary	Decline
Vortmann, Richard	Accept
Wagner, Anthony	Decline
Ward, Lincoln	Accept
Webber, Paul	Accept
Webster, Terri	Decline
Wilkinson, Sharon	Decline
Witmond, Lance	Accept
Wochaski, Ed	Accept

NAME	ACCEPT/DECLINE ¹
Woolever, Chuck	Accept
Yackley, Charles	Accept
Young, Anthony	Accept
Zeleney, Tom	Accept
Zucchet, Michael	Accept

¹ Where it is indicated that an individual declined to be interviewed, that individual (1) failed to respond to repeated requests to be interviewed by the Audit Committee; (2) was unwilling or unable to attend an interview when the Audit Committee was available; (3) was only willing to respond to written questions; (4) requested topics to be covered prior to interview, which were provided, but then either the Audit Committee received no response or the individual declined to be interviewed; (5) was concerned about how City Attorney Michael Aguirre would potentially utilize the information the Audit Committee obtained during their interview; or (6) imposed conditions that could not reasonably be met.

² Dennis Kahlie was interviewed by the Audit Committee on October, 18, 2005, and subsequently multiple requests were made to speak to him which were ignored.

³ Kelly Salt met briefly with Audit Committee on October 17, 2005, but she cut her interview short. Ms. Salt then requested a list of topics that would be covered prior to agreeing to a continued interview; topics were provided, and Ms. Salt declined.

Appendix E

Appendix E

Report of the Audit Committee of the City of San Diego

Consultant Document Requests and Responses

CONSULTANT	PRODUCED
Banc of America Securities LLC (& Bank of America)	No
Black & Veatch	Yes
Citigroup Global Markets Inc.	No
Evensen Dodge Inc.	Yes
Gardner, Underwood & Bacon, LLC	Yes
Goldman, Sachs & Co.	Yes
Hawkins, Delafield & Wood, LLP	Yes
Kelling, Northcross & Nobriga	Yes
Orrick, Herrington & Sutcliffe, LLP	Yes
Public Resources Advisory Group	Yes
Quateman & Zidell LLP	Yes
Stradling Yocca Carlson & Rauth	Yes
Towers Perrin	Yes
UBS Financial Services Inc.	Yes

Appendix F

Appendix F

Report of the Audit Committee of the City of San Diego

Contributions to SDCERS for Fiscal Year 1996 through Fiscal Year 2005

SDCERS PLAN MEMBERS		
YEAR ENDED	# OF WORKING EMPLOYEES ¹	# OF RETIREES ²
6/30/1996	9,198	4,052
6/30/1997	9,312	4,123
6/30/1998	9,359	4,419
6/30/1999	9,654	4,657
6/30/2000	9,913	4,789
6/30/2001	9,892	5,012
6/30/2002	10,409	5,143
6/30/2003	10,100	5,467
6/30/2004	9,749	5,723
6/30/2005	9,436	5,995

¹ Gabriel, Roeder, Smith & Co., San Diego City Employees' Retirement System Annual Actuarial Valuation FY 1996 to FY 2004; Cheiron, San Diego City Employees' Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006).

² Gabriel, Roeder, Smith & Co., San Diego City Employees' Retirement System Annual Actuarial Valuation FY 1996 to FY 2004; Cheiron, San Diego City Employees' Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006). The number of retirees includes: retirees, the disabled, and beneficiaries.

EMPLOYER CONTRIBUTIONS TO SDCERS³				
YEAR ENDED	EMPLOYER CONTRIBUTIONS	EMPLOYER DROP CONTRIBUTIONS⁴	TOTAL EMPLOYER CONTRIBUTIONS	TOTAL EMPLOYER CONTRIBUTIONS AS % OF PAYROLL⁵
6/30/1996	\$25,471,498	-	\$25,471,498	6.98%
6/30/1997	\$28,060,503	-	\$28,060,503	7.33%
6/30/1998	\$30,979,325	\$303,039	\$31,282,364	7.84%
6/30/1999	\$34,467,464	\$471,157	\$34,938,621	8.23%
6/30/2000	\$38,700,769	\$663,393	\$39,364,162	8.78%
6/30/2001 ⁶	\$43,385,069	Not Available	\$43,385,069	9.00%
6/30/2002 ⁶	\$49,743,747	Not Available	\$49,743,747	9.30%
6/30/2003 ⁶	\$70,099,844	Not Available	\$70,099,844	13.14%
6/30/2004 ⁷	\$87,861,650	\$1,587,629	\$89,449,279	16.56%
6/30/2005	\$144,238,133	\$1,795,935	\$146,034,068	26.19%

³ San Diego City Employees' Retirement System, Comprehensive Annual Financial Report Fiscal Years Ended June 30, 1996- 2003; Gabriel, Roeder, Smith & Co., San Diego City Employees' Retirement System Annual Actuarial Valuation FY 2004; Cheiron, San Diego City Employees' Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006).

⁴ The DROP program did not start until April 1, 1997.

⁵ Gabriel, Roeder, Smith & Co., San Diego City Employees' Retirement System Annual Actuarial Valuation FY 1996 to FY 2004; Cheiron, San Diego City Employees' Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006).

⁶ DROP contributions are not specified for the employer in FY 2001, 2002, and 2003. Therefore the "Total Employer Contributions" do not include the DROP portion.

⁷ In FY 2004 and FY 2005 employer and employee contributions included the Unified Port District.

EMPLOYEE CONTRIBUTIONS TO SDCERS⁸				
YEAR ENDED	EMPLOYEE CONTRIBUTIONS	EMPLOYEE DROP CONTRIBUTIONS⁹	TOTAL EMPLOYEE CONTRIBUTIONS	TOTAL EMPLOYEE CONTRIBUTIONS AS % OF PAYROLL¹⁰
6/30/1996	\$15,424,286	-	\$15,424,286	4.22%
6/30/1997	\$15,109,040	-	\$15,109,040	3.95%
6/30/1998	\$23,096,220	\$306,710	\$23,402,930	5.86%
6/30/1999	\$28,806,673	\$474,269	\$29,280,942	6.90%
6/30/2000	\$28,094,508	\$657,032	\$28,751,540	6.41%
6/30/2001	\$34,570,802	\$945,633	\$35,516,435	7.37%
6/30/2002	\$51,804,940	\$1,091,054	\$52,895,994	9.88%
6/30/2003 ¹¹	\$58,182,233	Not Available	\$58,182,233	10.90%
6/30/2004	\$91,315,004	\$1,571,007	\$92,886,011	17.20%
6/30/2005	\$69,876,512	\$1,784,795	\$71,661,307	12.85%

⁸ San Diego Employees' Retirement System, Comprehensive Annual Financial Reports Fiscal Years Ended June 30, 1996- 2003; Gabriel, Roeder, Smith & Co., San Diego City Employees' Retirement System Annual Actuarial Valuations from FY 1996 to FY 2004; Cheiron, San Diego City Employees' Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006). FY 2004 and FY 2005 contributions include the Unified Port District.

⁹ The DROP program did not start until April 1, 1997.

¹⁰ Gabriel, Roeder, Smith & Co., San Diego City Employees' Retirement System Annual Actuarial Valuation FY 1996 to FY 2004; Cheiron, San Diego City Employees' Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006).

¹¹ DROP contributions are not specified out for employees in FY 2003. "Total Employee Contributions" do not include the DROP portion.

Appendix G

Appendix G

Report of the Audit Committee of the City of San Diego

Benefits Paid for Fiscal Year 1996 to Fiscal Year 2005¹

	GENERAL MEMBERS		SAFETY MEMBERS		TOTAL MEMBERS	
YEAR ENDED	AVERAGE BENEFITS PAID	NEW RETIREE AVERAGE BENEFITS PAID	AVERAGE BENEFITS PAID	NEW RETIREE AVERAGE BENEFITS PAID	AVERAGE BENEFITS PAID	NEW RETIREE AVERAGE BENEFITS PAID
6/30/1996	\$ 10,308	\$ 17,723	\$ 21,107	\$ 34,100	\$ 14,369	\$ 24,226
6/30/1997	\$ 10,871	\$ 23,256	\$ 22,206	\$ 38,552	\$ 15,201	\$ 30,133
6/30/1998	\$ 12,092	\$ 25,920	\$ 25,217	\$ 44,910	\$ 17,313	\$ 33,402
6/30/1999	\$ 13,145	\$ 26,757	\$ 27,268	\$ 46,053	\$ 18,858	\$ 36,072
6/30/2000	\$ 13,879	\$ 25,259	\$ 28,767	\$ 50,094	\$ 19,910	\$ 35,054
6/30/2001	\$ 15,580	\$ 29,943	\$ 32,231	\$ 56,261	\$ 22,474	\$ 40,443
6/30/2002	\$ 16,400	\$ 31,617	\$ 33,755	\$ 57,724	\$ 23,635	\$ 44,581
6/30/2003	\$ 19,613	\$ 43,399	\$ 36,410	\$ 62,011	\$ 26,508	\$ 48,864
6/30/2004	\$ 21,369	\$ 36,719	\$ 38,150	\$ 64,018	\$ 28,184	\$ 44,307
6/30/2005	\$ 23,313	Not Available	\$ 40,052	Not Available	\$ 30,057	Not Available

¹ Gabriel, Roeder, Smith & Co., San Diego City Employees' Retirement System Annual Actuarial Valuations from FY 1996 to FY 2004 (including DROP); Cheiron, San Diego City Employees' Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006). The Unified Port District is not included in the data above.

Appendix H

Appendix H

Report of the Audit Committee of the City of San Diego

Unfunded Actuarial Accrued Liability Analysis (“UAAL”) for Fiscal Year 1993 to Fiscal Year 2005 (\$ *in thousands*)¹

UNFUNDED ACTUARIAL ACCRUED LIABILITY				
YEAR ENDED	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO	UAAL
6/30/1993	\$ 1,137,019	\$ 1,178,311	96.5%	\$ 41,292
6/30/1994	\$ 1,216,063	\$ 1,290,927	94.2%	\$ 74,864
6/30/1995	\$ 1,316,903	\$ 1,421,150	92.7%	\$ 104,247
6/30/1996	\$ 1,480,772	\$ 1,620,373	91.4%	\$ 139,602
6/30/1997	\$ 1,632,361	\$ 1,748,868	93.3%	\$ 116,507
6/30/1998	\$ 1,852,151	\$ 1,979,668	93.6%	\$ 127,517
6/30/1999	\$ 2,033,153	\$ 2,181,547	93.2%	\$ 148,394
6/30/2000 ²	\$ 2,459,815	\$ 2,528,774	97.3%	\$ 68,959
6/30/2001	\$ 2,525,645	\$ 2,809,538	89.9%	\$ 283,893
6/30/2002	\$ 2,448,208	\$ 3,168,921	77.3%	\$ 720,713
6/30/2003	\$ 2,375,431	\$ 3,532,626	67.2%	\$ 1,157,194
6/30/2004	\$ 2,628,680	\$ 3,997,328	65.8%	\$ 1,368,648
6/30/2005	\$ 2,983,080	\$ 4,377,093	68.2%	\$ 1,394,013

¹ Gabriel, Roeder, Smith & Co., San Diego City Employees’ Retirement System Annual Actuarial Valuation June 30, 2004 (Jan. 14, 2005); Cheiron, San Diego City Employees’ Retirement System, June 30, 2005 Actuarial Valuation for the City of San Diego at 3 (May 16, 2006).

² Reflects Corbett non-contingent benefit increases.

Appendix I

Appendix I

Report of the Audit Committee of the City of San Diego

Comparison of Municipal Pension Plans

The following chart is a summary of plan provisions and assumptions used in the most recent actuarial valuation publicly available, and funded status of pension plans of large cities in the United States. We looked at cities ranked 2nd through 12th by population, as well as additional cities in California.

CITY	PLAN NAME	ABBREVIATION
San Diego	San Diego City Employees' Retirement System	SDCERS
Anaheim	City employees participate in the California Public Employees' Retirement System	CalPERS
Dallas	Employees' Retirement Fund of the City of Dallas	Dallas ERF
Detroit	General Retirement System	Detroit GRS
	Police & Fire Retirement System	Detroit PFRS
Houston	Houston Municipal Employees Retirement System	HMEPS
Los Angeles	Los Angeles City Employees' Retirement System	LACERS
Phoenix	General employees: City of Phoenix Employees Retirement System	Phoenix ERS
	Sworn police and firefighters: Arizona Public Safety Personnel Retirement System (Arizona PSPRS)	Arizona PSPRS
Sacramento	City employees participate in the California Public Employees' Retirement System (CalPERS)	CalPERS
San Francisco	San Francisco Employees' Retirement System (SFERS)	SFERS
San Jose	Federated City Employees' Retirement System	FCERS
	Police and Fire Department Retirement Plan	PFDRP

Information could not be found for the Cities of Chicago, Indianapolis or Philadelphia. No information was readily available for the City of Phoenix Employees Retirement System. Employees of the City of San Antonio belong to the Texas Municipal Retirement System (TMRS), which is a defined contribution plan. Employees of the Cities of Anaheim and Sacramento belong to CalPERS.

The information below comes from annual reports and summary plan documents, all available to the public online. The level of detail available differs with each plan. More detail regarding plan provisions or actuarial valuation assumptions is provided for some plans than for others. For instance, assumptions were available only for San Diego, Houston, Los Angeles, Arizona, and San Jose.

	San Diego		Anaheim		Dallas	Detroit	Houston
	<u>SDCERS</u> <u>(General)</u>	<u>SDCERS</u> <u>(Safety)</u>	<u>CalPERS</u> <u>(General)</u>	<u>CalPERS</u> <u>(Safety)</u>	<u>ERF</u>	<u>GRS</u>	<u>HMEPS</u>
Plan Provisions							
Final Averaging Period	1 year	1 year	1 year	1 year	3 years	3 years	3 years
Benefit Multiplier (maximum of formulas)							
Formula 1	2.55%	3.00%	2.70%	3.00%	2.75%	1.80%	2.50%
Formula 2	2.81%						
Formula 3	2.80%						
Social Security eligible?	No	No	No	No	No	Yes	Yes
Employee Contributions							
Age 35	2.3%-3.3%	3.0%-3.5%	1.0%	9.0%	6.5%	0.0%	5.0%
Age 45	3.7%-4.7%	4.9%-5.5%	1.0%	9.0%	6.5%	0.0%	5.0%
Age 55	5.2%-6.2%	5.7%-6.3%	1.0%	9.0%	6.5%	0.0%	5.0%
Cost-of-Living when:							
CPI = 1.5%	1.50%	1.50%	1.50%	1.50%	1.50%	2.25%	3.00%
CPI = 2.5%	2.00%	2.00%	2.00%	2.00%	2.50%	2.25%	3.00%
CPI = 3.5%	2.00%	2.00%	2.00%	2.00%	3.50%	2.25%	3.00%
Is excess CPI over max banked?	Yes	Yes	No	No	No	No	No
Vesting (in years)	10	10			5	10	5
Age and service requirements for unreduced retirement	55&20 62&10	50&20 55&10	Age 55	Age 50	Age 60 50&78 pts 30 service	55&30 60&10 65&8	25 service 62&5 50&5&75pts

	San Diego		Los Angeles	Phoenix	San Francisco		San Jose
	<u>SDCERS (General)</u>	<u>SDCERS (Safety)</u>	<u>LACERS</u>	<u>Arizona PSPRS</u>	<u>SFERS (General)</u>	<u>SFERS (Safety)</u>	<u>FCERS</u> <u>PFDRP</u>
Plan Provisions							
Final Averaging Period	1 year	1 year	1 year	3 years	1 year	1 year	1 year 1 year
Benefit Multiplier (maximum of formulas)							
Formula 1	2.55%	3.00%	2.16%	2.50%	2.00%	3.00%	2.50%
Formula 2	2.81%						
Formula 3	2.80%						
Social Security eligible?	Yes	Yes	No	No	Yes	Yes	No
Employee Contributions							
Age 35	3.30%		6.0%	7.65%	7.5%	7.5%	11.16%
Age 45	4.67%		6.0%	7.65%	7.5%	7.5%	11.16%
Age 55	6.20%		6.0%	7.65%	7.5%	7.5%	11.16%
Cost-of-Living when:							
CPI = 1.5%	1.50%	1.50%	1.50%	4.00%*	1.50%	1.50%	1.50%
CPI = 2.5%	2.00%	2.00%	2.50%	4.00%*	2.00%	2.00%	2.50%
CPI = 3.5%	2.00%	2.00%	3.00%	4.00%*	2.00%	2.00%	3.00%
Is excess CPI over max banked?	Yes	Yes	Yes	No	No	No	No
Vesting (in years)	10	10	5	5 to 10	5	5	5
Age and service requirements for unreduced retirement	55&20 62&10	50&20 55&10	Age 70 60&10 55&30	0&20 62&15	Age 60	Age 55 30 service	50&25 55&20 30 service Age 70

* Arizona PSPRS participants get an increase equal to 4% of the average benefit, contingent upon investment earnings of the fund.

	San Diego		Houston	Los Angeles	Phoenix	San Jose	
	<u>SDCERS</u> <u>(General)</u>	<u>SDCERS</u> <u>(Safety)</u>	<u>HMEPS</u>	<u>LACERS</u>	<u>Arizona</u> <u>PSPRS</u>	<u>FCERS</u>	<u>PFDRP</u>
Assumptions							
Rate of return	8.00%	8.00%	8.50%	8.00%	8.75%	8.25%	8.00%
Rate of Inflation	4.25%	4.25%	3.00%	4.00%	5.25%	4.50%	4.50%
Salary Scale							
Age 25, first year	9.25%	12.25%	5.25%	4.00%	9.25%	8.00%	10.30%
Age 35, first year	9.25%	12.25%	5.25%	4.00%	7.35%	7.00%	10.30%
Age 45, first year	9.25%	12.25%	5.25%	4.00%	6.45%	6.00%	10.30%
Age 55, first year	9.25%	12.25%	5.25%	4.00%	6.35%	5.00%	10.30%
Age 25, ultimate	4.75%	4.75%	3.00%	1.00%	9.25%	8.00%	10.10%
Age 35, ultimate	4.75%	4.75%	3.00%	1.00%	7.35%	7.00%	8.60%
Age 45, ultimate	4.75%	4.75%	3.00%	1.00%	6.45%	6.00%	7.10%
Age 55, ultimate	4.75%	4.75%	3.00%	1.00%	6.35%	5.00%	5.60%
Mortality Table	UP 1994	UP 1994	1994 GAM	UP 1994	1971 GAM, Projected to 2000	1983 GAM	1994 GAM
Turnover Rates (average male and female, if separate)							
Age 25, first year	5.6%	2.2%	30.5%	8.3%	15.0%	5.3%	6.0%
Age 35, first year	5.6%	2.2%	23.1%	8.3%	15.0%	2.0%	6.0%
Age 45, first year	5.6%	2.2%	18.9%	8.3%	15.0%	1.1%	6.0%
Age 55, first year	5.6%	2.2%	14.7%	8.3%	15.0%	0.7%	6.0%
Age 25, ultimate	4.6%	2.1%	15.8%	5.8%	1.8%	5.3%	0.2%
Age 35, ultimate	2.3%	0.9%	8.4%	3.8%	1.7%	2.0%	0.2%
Age 45, ultimate	1.3%	0.2%	4.2%	2.3%	1.3%	1.1%	0.2%
Age 55, ultimate	0.8%	0.0%	0.0%	1.5%	1.2%	0.7%	0.2%
Retirement Rates							
Age 45	0%	0%	0%	0%	28%	0%	0%
Age 50	0%	10%	10%	1%	31%	10%	10%
Age 55	20%	40%	10%	9%	40%	17%	17%
Age 60	20%	85%	20%	20%	75%	10%	22%
Age 62	50%	100%	25%	25%	75%	18%	26%
Age 65	50%	100%	40%	26%	100%	25%	100%
Age 70	100%	100%	100%	100%	100%	100%	100%
Age 75	100%	100%	100%	100%	100%	100%	100%

Mortality Table Abbreviations:

UP 1994 – Unisex Pensioners

1971, 1983, 1994 GAM – Group Annuity Mortality

Amounts in \$1,000s	San Diego	Dallas	Detroit		Houston	Los Angeles
	<u>SDCERS</u>	<u>ERF</u>	<u>GRS</u>	<u>P&F</u>	<u>HMEPS</u>	<u>LACERS</u>
Funded Status						
Valuation Date	6/30/2004	12/31/2004	6/30/2004	6/30/2004	7/1/2005	6/30/2005
Actuarial Accrued Liability (AAL)	\$3,997,328	\$2,488,270	\$3,383,927	\$3,857,493	\$2,725,272	\$9,321,525
Actuarial Value of Assets (AVA)	\$2,628,680	\$2,482,082	\$2,470,243	\$3,074,517	\$1,777,656	\$7,193,142
Unfunded Actuarial Accrued Liability (UAAL)	\$1,368,648	\$6,188	\$913,683	\$782,977	\$947,616	\$2,128,383
Funded Status	65.8%	99.8%	73.0%	79.7%	65.2%	77.2%
Funding Method	PUC	EAN	EAN	EAN	EAN	PUC

Amounts in \$1,000s	San Diego	Phoenix	San Jose		San Francisco
	<u>SDCERS</u>	<u>All Plans</u>	<u>PFDRP</u>	<u>FCERS</u>	<u>SFERS</u>
Funded Status					
Valuation Date	6/30/2004	6/30/2004	6/30/2003	6/30/2003	6/30/2004
Actuarial Accrued Liability (AAL)	\$3,997,328	\$3,531,759	\$1,823,200	\$1,280,719	\$10,249,896
Actuarial Value of Assets (AVA)	\$2,628,680	\$3,123,331	\$1,826,287	\$1,311,691	\$11,173,636
Unfunded Actuarial Accrued Liability (UAAL)	\$1,368,648	\$408,428	\$(3,087)	\$30,792	\$(923,740)
Funded Status	65.8%	88.4%	100.2%	97.6%	109.0%
Funding Method	PUC	IEA	EAN	EAN	EAN

Funding Method Abbreviations:
PUC – Projected Unit Credit
EAN – Entry Age Normal
IEA – Individual Entry Age

Cities that have Issued Pension Obligation Bonds

Amounts in \$1,000s	Dallas	Detroit		Houston
	<u>ERF</u>	<u>GRS</u>	<u>P&F</u>	<u>HMEPS</u>
Issue Date	2/2/2005	6/30/2005	6/30/2004	11/2004
Amount	\$533,397	\$733,794	\$630,829	\$300,000
Issue Date				11/2005
Amount				\$33,000
Issue Date				11/2006
Amount				\$33,000
Issue Date				11/2007
Amount				\$33,000

Appendix J

Appendix J

Report of the Audit Committee of the City of San Diego

City of San Diego Bond Offerings

CITY OF SAN DIEGO ("CITY") BOND OFFERINGS		
7/15/96	\$33,430,000	Balboa Park and Mission Bay Capital Improvements Program [Dated 7/16/96]
8/1/96	\$11,720,000	Balboa Park and Mission Bay Park Capital Improvements Program [Dated 7/31/96]
12/1/96	\$68,425,000	Taxable Lease Revenue Bonds [Dated 12/12/96]
2/1/97	\$250,000,000	Sewer Revenue Bonds [Dated 2/26/97]
7/2/97	\$82,000,000	1997-1998 Tax Anticipation Notes [Dated 6/5/97]
7/1/98	\$59,465,000	Special Tax Refunding Bonds [Dated 6/24/98]
7/1/98	\$88,500,000	1998-1999 Tax Anticipation Notes [Dated 6/3/98]
8/1/98	\$385,000,000	Water Utility Fund [Dated 8/4/98]
9/1/98	\$205,000,000	Lease Revenue Bonds [Dated 9/1/98]
3/1/99	\$315,410,000	Sewer Revenue Bonds [Dated 3/2/99]
7/1/99	\$99,500,000	1999-2000 Tax Anticipation Notes [Dated 6/10/99]
7/3/00	\$53,000,000	2000-01 Tax Anticipation Notes [Dated 6/8/00]
9/26/00	\$24,000,000	2000-01 Tax Anticipation Notes [Dated 9/19/00]
10/30/00	\$56,020,000	Special Tax Bonds [Dated 10/18/00]
10/30/00	\$4,350,000	Special Tax Bonds [Dated 10/18/00]
7/2/01	\$73,000,000	2001-02 Tax Anticipation Notes [Dated 6/6/01]
2/14/02	\$169,685,000	Lease Revenue Bonds [Dated 2/14/02]
6/15/02	\$25,070,000	Lease Revenue Bonds [Dated 6/12/02]
7/1/02	\$93,200,000	2002-03 Tax Anticipation Notes [Dated 6/4/02]

CITY OF SAN DIEGO ("CITY") BOND OFFERINGS		
10/8/02	\$286,945,000	Water Revenue Bonds [Dated 10/8/02]
4/30/03	\$15,255,000	Lease Revenue Refunding Bonds [Dated 4/30/03]
5/29/03	\$17,425,000	Balboa Park/Mission Bay Park Refunding [Dated 5/29/03]
7/1/2003	\$110,900,000	2003-2004 Tax Anticipation Notes [Dated 6/16/03]
8/26/2003	\$505,500,000	Subordinated Sewer Revenue Bonds (POS)

Appendix K

Appendix K

Report of the Audit Committee of the City of San Diego

City of San Diego Clean Water Act Loans and Grants

LOANS AWARDED

LOAN NO.	SIGNED BY	DATE	INITIAL AMOUNT ¹	AMOUNT RECEIVED ²
C-06-4718-110	Schlesinger, Loveland	5/8/01 (signed)	up to \$9,709,702	\$9,709,702
C-06-4383-110	Loveland, Uberuaga	12/28/1999 (approved)	up to \$12,727,104	\$12,727,104
C-06-4542-110	Loveland, Uberuaga	12/28/1999 (approved)	up to \$8,021,329	\$8,021,329
C-06-4690-110	Belock	1/5/01 (signed)	up to \$1,031,653	\$1,031,653
C-06-4119-410	Belock	12/22/00 (signed)	up to \$3,030,421	\$3,030,421
C-06-4119-510	Belock for Uberuaga	12/27/00 (approved)	up to \$40,464,525	\$40,464,525
C-06-4650-110	Belock	3/16/01 (approved)	up to \$10,453,781	\$10,453,781
C-06-4650-210	Belock	6/4/01 (approved)	up to \$4,520,949	\$4,520,949
C-06-4703-110 ¹	Loveland	2/26/03 (approved)	up to \$12,111,202	\$12,111,202
		LOAN TOTALS	\$102,070,666	\$102,070,666

¹ The Initial Amount is the amount of the loan or grant as stated in the loan or grant award.

² The Amount Received is the amount of federal funds the City of San Diego actually received for that loan or grant, taking into account and including later amendments and supplements.

GRANTS AWARDED¹

GRANT NO.	SIGNED BY	DATE	INITIAL AMOUNT	AMOUNT RECEIVED
C-06-3014-140	McGrory	4/9/93 (date of award)	\$44,956,261	\$69,533,015
XP999199-01-0	Unsigned	1/24/95 (date of award)	\$14,939,920	\$27,007,680
C-06-1092-310	McGrory	7/30/96 (date awarded)	\$4,338,923	\$5,325,041
XP989387-01-0	Schlesinger	9/30/99 (date approved)	\$2,133,000	\$2,133,000
C-06-3014-1302	McGrory	2/2/93 (approved)	\$31,347,318	\$33,089,430
C-06-3014-15-0	McGrory	8/16/93 (approved)	\$3,514,499	\$3,514,499
XP999194-01-0	McGrory	1/20/95 (approved)	\$5,247,838	\$1,305,574
C-06-1092-0103	Ralph Graham (Assistant City Manager)	4/28/75 (signed)	\$177,000	\$12,710,184
C-06-1092-210	John Lockwood (City Manager)	3/13/89 (date of award)	\$11,806,850	\$8,107,642
		GRANT TOTALS	\$118,461,609	\$162,726,065
		LOAN AND GRANT TOTALS	\$220,532,275	\$264,796,7314

¹ The Annual Report for the Fiscal Year Ended June 30, 2003 ("Voluntary Disclosure") states that there are 17 state and federal grants that were at risk because of the City's noncompliance with the State requirements. Annual Report for the Fiscal Year Ended June 30, 2003, Public Facilities Financing Authority of the City of San Diego, California, Sewer Revenue Bonds, Series 1995, Sewer Revenue Bonds, Series 1997A and Series 1997B, Sewer Revenue Bonds, Series 1999A and 1999B at 8-9 (Mar. 26, 2004). However, 5 of the 17 were not Clean Water Grants (4-137-550 – Defensive Measures; STPLF-5004(036) – Dairy Mart Road & Bridge; WAT-00A-001 – CCEG-Energy Grant-COMC; WAT-00A-002 – CCEG-Energy Grant-PERP; and HDR-005-2001 – CEC-Energy Grant-Point Loma Dual Fuel). These grants total \$13,596,858 and should not have been included in the dollar figure provided in the Voluntary Disclosure for grant funds at risk. Out of the remaining 12 grants noted in the Voluntary Disclosure, 3 were actually 3 distinct projects utilizing one grant award that was later amended and supplemented (XP-999199-01-0: North Sludge Processing Facility for \$16,865,690; South Bay Water Reclamation Plant-Design for \$2,855,644 and South Bay Water Reclamation-Transfer for \$7,286,346.) These funds are consolidated in

this chart and labeled as one grant, XP-999199-01-0. One other grant was used to fund two projects through a later amendment, C-06-3014-130 (Point Loma Outfall Extension for \$30,589,430 and State Share of Point Loma Outfall for \$2,500,000). Thus, the most accurate number of grants at risk is 9, not the 17 grants reported in the Voluntary Disclosure.

² The Grant was apparently improperly listed as amounting to \$30,589,430 in response to Plaintiffs' Special Interrogatory No. 5 in *Shames*. The Grant was originally awarded for \$30,589,430 but was subsequently amended to increase the grant by \$2,500,000 for a total grant award of \$33,089,430. (Point Loma Outfall Extension for \$30,589,430 and State Share of Point Loma Outfall for \$2,500,000).

³ Grants C-06-1092-010 and C-06-1092-210 were included in the Voluntary Disclosure because though effective prior to the starting date of noncompliance, these grants were later amended and supplemented during the time period of noncompliance, according to a phone conversation with Grants Administrator Richard Enriquez on June 13, 2006.

Grants C-06-1092-010 and C-06-1092-210 were apparently not disclosed to Plaintiffs in *Shames* because Plaintiffs only requested "all EPA Agreements the City of San Diego ("City") has entered into for the purpose of funding capital improvement projects for the City's wastewater system since 1989." See Memorandum from Richard Enriquez via Clay Bingham, Acting Deputy Director, Metropolitan Wastewater Department, to Ted Bromfield, City Attorney's Office (response to Special Interrogatory No. 5) (Feb. 16, 2005). The two grants were entered into in 1989 and 1975.

⁴ In Wastewater Interim Report No. 1 City of San Diego Officials' Failure to Disclose Material Facts in Connection with the Offer and Sale of Wastewater Bonds and Related Improper Activity, Report of the San Diego City Attorney Michael J. Aguirre (Sept. 15, 2005) at 3, Mr. Aguirre states, "The City applied for or received over \$368 million in loans and grants from federal and California state sources to pay for capital improvements to the Wastewater System," and cites to a March 16, 2004 memorandum from Richard Enriquez to Dennis Kahilie (sic) for partial support for his statement. Mr. Aguirre is referring to an e-mail from Richard Enriquez to Dennis Kahlie cc to Maureen Brungardt attaching a list of grants and loans (March 16, 2004). According to a phone conversation with Grants Administrator Richard Enriquez on June 13, 2006, the Grant for the Otay River Pump Station (\$8,303,180) was withdrawn for environmental reasons and the Grant for the Point Loma Grit Processing Improvements (\$24,600,000) was withdrawn because the City did not build the project. Mr. Enriquez said that the Grant for the Point Loma 4th Pump (\$3,500,000) and for the Point Loma S1 and S2 Digester Upgrade (\$11,700,000) were not executed and are still pending. Mr. Enriquez also noted that the grants listed include BOR and NADBANK grants, which are not subject to the State's requirements, thus, in part explaining why Mr. Aguirre's figure differs so substantially from the figure for the total amount of grants and loans at risk listed in the Voluntary Disclosure as well as this chart's figure. Mr. Aguirre also cites to a November 14, 2002 Memorandum from Mary Vattimo and Kelly J. Salt to the Honorable Mayor and City Council for support of his factual citation. Mr. Aguirre is referring to a Memorandum from Mary Vattimo, City Treasurer and Kelly J. Salt, Deputy City Attorney to the Mayor and City Council (Nov. 14, 2002). The memorandum references approximately \$370,000,000 in grants and loans that were at risk because of the City's noncompliance. It appears that the information for the memo was supplied by the Metropolitan Wastewater Department as indicated by a later reconstruction of the figures in the memo generated a day before the March 16, 2004 email/document previously referenced, with the same discrepancies (grants and loans listed that were withdrawn or not executed and grants listed that were not subject to the State's requirements.) E-mail from Maureen Brungardt to Bill Hanley cc to Richard Enriquez, attaching list of grants and loans (March 15, 2004).

Appendix L

Appendix L

Report of the Audit Committee of the City of San Diego

City of San Diego Disclosure Deficiencies

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
	<u>Fiscal Year 1996 (Issue Date: November 27, 1996)</u>		
FY 1996	1. A brief statement about types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established. [GASB 5, paragraph 35.a.3]	"All full-time City employees are eligible to participate in CERS. Retirement benefits are determined primarily by the member's age at retirement, the length of membership service and the member's final compensation...Benefits fully vest on reaching 10 years of service. CERS also provides death and disability benefits. Benefits are established by the City's Municipal Code." [Footnote 9. Pension Plans]	The City CAFR did not disclose the authority under which benefit provisions were established. Benefits outlined in the Municipal Code are established under the authority of the <i>City Council</i> .
FY 1996	2. Employer and employee obligations to contribute and the authority under which those obligations are established. [GASB 5, paragraph 35.a.4]	"City employees are required to contribute a percentage of their annual salary to CERS. The City is required to contribute the remaining amounts necessary to fund CERS, using the actuarial basis specified by statute." [Footnote 9. Pension Plans]	The City CAFR did not disclose the authority under which the obligations to contribute to the plan were established.
FY 1996	3. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner. [GASB 12, paragraph 10.a]	The City CAFR includes a description of the type of benefit, the employee groups covered, and eligibility requirements. [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not include quantification of employer and participant contributions.

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
FY 1996	4. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. [GASB 12, paragraph 10.e]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1996, expenditures of approximately \$4,949,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 1996	5. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] Any additional information that the employer believes will help users assess the nature and magnitude of the costs of the employer's commitment to provide OPEB. [GASB 12, paragraph 10.f]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1996, expenditures of approximately \$4,949,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 1996	6. If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. [GASB 10, paragraph 58]	"The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position." [Footnote 17. Contingencies]	The City CAFR failed to disclose noncompliance with certain grant and loan covenants with the State Water Resources Control Board. The violations could have resulted in immediate repayment of grants and acceleration of payments on outstanding loans received for capital improvements in the Metropolitan Wastewater Department.

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
	<u>Fiscal Year 1997 (Issue Date: November 21, 1997)</u>		
FY 1997	1. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended. [GASB 27, paragraph 20.a.2]	"SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members." [Footnote 9.a. Pension Plans - Plan Description]	The City CAFR did not disclose the authority under which benefit provisions are established. Benefits outlined in the Municipal Code were established under the authority of the <i>City Council</i> .
FY 1997	2. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) are established or may be amended. [GASB 27, paragraph 20.b.1]	The City CAFR includes a description of the funding policy for the employer (City) and the employees. [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR did not disclose the authority under which the obligations to contribute to the plan were established.
FY 1997	3. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or contract, or the plan is financed on a pay-as-you-go basis). [GASB 27 paragraph 20.b.3]	"The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation." Additionally, the footnote reported the ARC and contribution made in dollars. [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that the pension plan was funded at the projected unit credit actuarial rate, when the actual rate contributed by the City for fiscal year 1997 was less than ARC. The City CAFR failed to disclose that the contribution rate was determined by contract (MP-1). Additionally, the footnote reported the incorrect amount for the ARC and the percentage contribution.
FY 1997	4. For the current year, annual pension cost and the dollar amount of contributions made. If the employer has an NPO, also disclose the components of annual pension cost (ARC, interest on NPO, and adjustment to the ARC), the increase or decrease in the NPO, and the NPO at the end of the year. [GASB 27, paragraph 21.a]	The City CAFR states that both the ARC and contribution made for the fiscal-year ended June 30, 1997 was \$29,166 (thousand). Additionally, the City CAFR states, "There is no Net Pension Obligation at year end as Actuarially Required Contributions and Contributions made have always been identical during the three-year period." [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that there was no NPO at June 30, 1997. Due to the terms of the MP-1 agreement, the City contributed less than the ARC on July 1, 1996 (fiscal year 1997).

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
FY 1997	5. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (25 years remaining)." [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that the UAAL was amortized over a 30-year period. Beginning in fiscal year 1997, with the MP-1 agreement, the UAAL was amortized as a level percent of payroll over 40 years for expensing purposes. The City CAFR did not disclose that a 40-year amortization factor resulted in a smaller ARC and a lower NPO balance.
FY 1997	6. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (25 years remaining)." [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that the remaining amortization period was 25 years. The 30-year amortization period was implemented on July 1, 1991. Therefore, as of June 30, 1997, 24 years remained in the amortization period.
FY 1997	7. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The City CAFR provides a brief description of the types of benefits provided for by SDCERS and the population of employees eligible to receive benefits from SDCERS. Under the <i>Funding Policy</i> section, the City CAFR states that employer contributions were made using actuarially determined rates and employees were required to contribute a percentage of their annual salary. Additionally, the CAFR provides the ARC and contributions made for the last three years. [Footnote 9. Pension Plans]	The City CAFR failed to disclose key components of the MP-1 agreement. The CAFR did not disclose the retirement benefit enhancements, that the City's fixed rate contributions were less than ARC, the funded ratio trigger threshold of 82.3%, or the financial impact to the City if the trigger threshold was breached.

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
FY 1997	8. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner. [GASB 12, paragraph 10.a]	The City CAFR includes a description of the type of benefit, the employee groups covered, and eligibility requirements. [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not include quantification of employer and participant contributions.
FY 1997	9. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. [GASB 12, paragraph 10.c]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1997, expenditures of approximately \$5,017,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
FY 1997	10. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] Any additional information that the employer believes will help users assess the nature and magnitude of the costs of the employer's commitment to provide OPEB. [GASB 12, paragraph 10.f]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1997, expenditures of approximately \$5,017,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 1997	11. If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. [GASB 10, paragraph 58]	"The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position." [Footnote 17. Contingencies]	The City CAFR failed to disclose noncompliance with certain grant and loan covenants with the State Water Resources Control Board. The violations could have resulted in immediate repayment of grants and acceleration of payments on outstanding loans received for capital improvements in the Metropolitan Wastewater Department.

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
	<u>Fiscal Year 1998 (Issue Date: November 25, 1998)</u>		
FY 1998	1. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended. [GASB 27, paragraph 20.a.2]	"SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members." [Footnote 9.a. Pension Plans - Plan Description]	The City CAFR did not disclose the authority under which benefit provisions were established. Benefits outlined in the Municipal Code are established under the authority of the <i>City Council</i> .
FY 1998	2. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) are established or may be amended. [GASB 27, paragraph 20.b.1]	The City CAFR includes a description of the funding policy for the employer (City) and the employees. [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR did not disclose the authority under which the obligations to contribute to the plan were established.
FY 1998	3. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or contract, or the plan is financed on a pay-as-you-go basis). [GASB 27 paragraph 20.b.3]	"The City and the District contribute...the remaining amount necessary to fund the system based on an actuarial valuation..." The footnote also describes the "Corridor" funding method and states that the City's actual contribution for the fiscal year was approximately \$6 million less than the actuarially determined amount. [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The City CAFR failed to disclose that the contribution rate was determined by contract (MP-1). Additionally, the ARC was incorrectly labeled as Annual Pension Cost (APC).

City of San Diego ("City") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in City CAFR	Deficiency
FY 1998	4. Sole and agent employers should disclose... For the current year, annual pension cost and the dollar amount of contributions made. If the employer has an NPO, also disclose the components of annual pension costs (ARC, interest on the NPO, and adjustment to the ARC), the increase or decrease in the NPO, and the NPO at the end of the year. [GASB 27, paragraph 21.a]	The City CAFR provides the dollar contribution made by the City for the fiscal-year ended June 30, 1998. Additionally, the following statement is made, "As a result for June 30, 1998, the actuary rates are reported to be \$5,975,000 more than paid by the City, which...is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve." [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR notes did not accurately present the APC, ARC, or NPO for the fiscal-year ended June 30, 1998. Only the ARC and NPO were presented for the fiscal-years ended June 30, 1996 and 1997 (the ARC was incorrectly labeled as APC). Additionally, the statement that the NPO was funded in a reserve was misleading because the reserve was not on the books of the City, but on the books of SDCERS.
FY 1998	5. Sole and agent employers should disclose... For the current year and each of the two preceding years, annual pension cost, percentage of annual pension cost contributed that year, and NPO at the end of that year. (For the first two years, the required information should be presented for the transition year, and for the current and transition year, respectively.) [GASB 27, paragraph 21.b]	The City CAFR presents the annual pension cost, percentage of annual pension cost contributed, and NPO at the end of the year for fiscal years ended June 30, 1996 and 1997 (the two preceding years). "Three year trend information will be presented beginning in fiscal year 1999." [Footnote 9.d. Pension Plans - Three-Year Trend Analysis]	The City CAFR failed to present this data for the fiscal-year ended June 30, 1998 (the current year). Because the ARC was incorrectly labeled as APC, the disclosure failed to include the APC for the two preceding years.
FY 1998	6. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (23 years remaining)." [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that the UAAL was amortized over a 30-year period. Beginning in fiscal year 1997, with the MP-1 agreement, the UAAL was amortized as a level percent of payroll over 40 years for expensing purposes. The City CAFR did not disclose that a 40-year amortization factor resulted in a smaller ARC and a lower NPO balance.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 1998	7. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The City CAFR provides a brief description of the population of employees eligible to receive benefits from SDCERS. Under the Funding Policy section, the City CAFR indicates that employer contributions were made using actuarially determined rates and employees were required to contribute a percentage of their annual salary. Additionally, the CAFR provides a brief description of the MP-1 agreement. [Footnote 9. Pension Plans]	The City CAFR did not disclose the retirement benefit enhancements, that the City's fixed rate contributions were less than ARC, the funded ratio trigger threshold of 82.3%, and the financial impact to the City if the trigger threshold was breached.
FY 1998	8. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The Corbett litigation is not disclosed in the City CAFR for the fiscal-year ended June 30, 1998.	The Corbett lawsuit was filed on July 16, 1998. The litigation threatened to increase the salary factor used to calculate retirement benefits. The City CAFR failed to disclose the pending lawsuit and its potential affect on the amounts reported for the pension plan.
FY 1998	9. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner. [GASB 12, paragraph 10.a]	The City CAFR includes a description of the type of benefit, the employee groups covered, and eligibility requirements. [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not include quantification of employer and participant contributions.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 1998	10. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. [GASB 12, paragraph 10.e]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1998, expenditures of approximately \$4,538,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 1998	11. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] Any additional information that the employer believes will help users assess the nature and magnitude of the costs of the employer's commitment to the OPEB. [GASB 12, paragraph 10.f]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1998, expenditures of approximately \$4,538,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 1998	12. If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. [GASB 10, paragraph 58]	"The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position." [Footnote 17. Contingencies]	The City CAFR failed to disclose noncompliance with certain grant and loan covenants with the State Water Resources Control Board. The violations could have resulted in immediate repayment of grants and acceleration of payments on outstanding loans received for capital improvements in the Metropolitan Wastewater Department.

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	Guidance	Disclosure included in City CAFR	Deficiency
	<u>Fiscal Year 1999 (Issue Date: November 30, 1999)</u>		
FY 1999	1. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended. [GASB 27, paragraph 20.a.2]	"SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members." [Footnote 9.a. Pension Plans - Plan Description]	The City CAFR did not disclose the authority under which benefit provisions were established. Benefits outlined in the Municipal Code are established under the authority of the <i>City Council</i> .
FY 1999	2. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) are established or may be amended. [GASB 27, paragraph 20.b.1]	The City CAFR includes a description of the funding policy for the employer (City) and the employees. [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR did not disclose the authority under which the obligations to contribute to the plan were established.
FY 1999	3. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or contract, or the plan is financed on a pay-as-you-go basis). [GASB 27 paragraph 20.b.3]	"The City and the District contribute...the remaining amount necessary to fund the system based on an actuarial valuation..." The footnote also describes the "Corridor" funding method and states that the City's actual contribution is more than \$15 million less than the actuarially determined amount. [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The City CAFR failed to disclose that the contribution rate was determined by contract (MP-1). Additionally, the ARC was incorrectly labeled as Annual Pension Cost (APC).

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 1999	4. Sole and agent employers should disclose... For the current year, annual pension cost and the dollar amount of contributions made. If the employer has an NPO, also disclose the components of annual pension costs (ARC, interest on the NPO, and adjustment to the ARC), the increase or decrease in the NPO, and the NPO at the end of the year. [GASB 27, paragraph 21.a]	The City CAFR provides the dollar contribution made by the City for the fiscal-year ended June 30, 1999. Additionally, the following statement is made, "As a result for June 30, 1999, the actuary rates are reported to be \$15,125,000 more than paid by the City, which...is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve." [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR notes did not accurately present the APC, ARC, or NPO for the fiscal-year ended June 30, 1999. Only the ARC and NPO were presented for the fiscal-years ended June 30, 1996, 1997 and 1998 (the ARC was incorrectly labeled as APC). Additionally, the statement that the NPO was funded in a reserve was misleading because the reserve was not on the books of the City, but on the books of SDCERS. The NPO balance as of 6/30/1998 reported under the "Three-Year Trend Analysis" was \$16,000,000, compared to \$15,125,000 as stated in the "Funding Policy" section.
FY 1999	5. Sole and agent employers should disclose... For the current year and each of the two preceding years, annual pension cost, percentage of annual pension cost contributed that year, and NPO at the end of that year. (For the first two years, the required information should be presented for the transition year, and for the current and transition year, respectively.) [GASB 27, paragraph 21.b]	The City CAFR presents the annual pension cost, percentage of annual pension cost contributed, and NPO at the end of the year for fiscal-years ended June 30, 1996, 1997 and 1998. [Footnote 9.d. Pension Plans - Three-Year Trend Analysis]	The City CAFR failed to present this data for the fiscal-year ended June 30, 1999 (the current year). Because the ARC was incorrectly labeled as APC, the disclosure failed to include the APC for the two preceding years.
FY 1999	6. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (22 years remaining)." [Footnote 9.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that the UAAL was amortized over a 30-year period. Beginning in fiscal year 1997, with the MP-1 agreement, the UAAL was amortized as a level percent of payroll over 40 years for expensing purposes. The City CAFR did not disclose that a 40-year amortization factor resulted in a smaller ARC and a lower NPO balance.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 1999	7. Sole and agent employers should disclose... The actuarial valuation date, the actuarial value of plan assets, the actuarial accrued liability, (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll. [GASB 27, paragraph 22.a]	The table presented on page 22-1 titled "TRUST AND AGENCY FUNDS, PENSION TRUST FUNDS, CITY EMPLOYEES' RETIREMENT SYSTEM" contains combined data for the City and the San Diego Unified Port ("Port") District.	<i>Required Supplemental Information</i> - As presented, the table does not make clear that the Port information is included in the figures presented. The Port's funded ratio was higher than that of the City at this time.
FY 1999	8. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The City CAFR provides a brief description of the population of employees eligible to receive benefits from SDCERS. Under the Funding Policy section, the City CAFR indicates that employer contributions were made using actuarially determined rates and employees were required to contribute a percentage of their annual salary. Additionally, the CAFR provides a brief description of the MP-1 agreement. [Footnote 9. Pension Plans]	The City CAFR did not disclose the retirement benefit enhancements, that the City's fixed rate contributions were less than ARC, the funded ratio trigger threshold of 82.3%, and the financial impact to the City if the trigger threshold was breached.
FY 1999	9. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The Corbett litigation is not disclosed in the City CAFR for the fiscal-year ended June 30, 1999.	The pending Corbett litigation, which was filed July, 16, 1998, was certified as a class action suit on November 19, 1999. The litigation threatened to increase the salary factor used to calculate retirement benefits. The City CAFR failed to disclose the pending lawsuit and its potential affect on the amounts reported for the pension plan.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 1999	10. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner. [GASB 12, paragraph 10.a]	The City CAFR includes a description of the type of benefit, the employee groups covered, and eligibility requirements. [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not include quantification of employer and participant contributions.
FY 1999	11. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are finances on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. [GASB 12, paragraph 10.c]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1999, expenditures of approximately \$5,400,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 1999	12. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] Any additional information that the employer believes will help users assess the nature and magnitude of the costs of the employer's commitment to the OPEB. [GASB 12, paragraph 10.f]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1999, expenditures of approximately \$5,400,000 were recognized for such health care benefits." [Footnote 10. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 1999	13. If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. [GASB 10, paragraph 58]	"The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position." [Footnote 17. Contingencies]	The City CAFR failed to disclose noncompliance with certain grant and loan covenants with the State Water Resources Control Board. The violations could have resulted in immediate repayment of grants and acceleration of payments on outstanding loans received for capital improvements in the Metropolitan Wastewater Department.

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	Guidance	Disclosure included in City CAFR	Deficiency
	<u>Fiscal Year 2000 (Issue Date: November 30, 2000)</u>		
FY 2000	1. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended. [GASB 27, paragraph 20.a.2]	"SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members." [Footnote 10.a. Pension Plans - Plan Description]	The City CAFR did not disclose the authority under which benefit provisions were established. Benefits outlined in the Municipal Code are established under the authority of the <i>City Council</i> .
FY 2000	2. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) are established or may be amended. [GASB 27, paragraph 20.b.1]	The City CAFR includes a description of the funding policy for the employer (City) and the employees. [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR did not disclose the authority under which the obligations to contribute to the plan were established.
FY 2000	3. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or contract, or the plan is financed on a pay-as-you-go basis). [GASB 27 paragraph 20.b.3]	"The City and the District contribute...the remaining amount necessary to fund the system based on an actuarial valuation..." The footnote also describes the "Corridor" funding method and states that the City's actual contribution is more than \$23 million less than the actuarially determined amount. [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The City CAFR failed to disclose that the contribution rate was determined by contract (MP-1).

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2000	4. For the current year, annual pension cost and the dollar amount of contributions made. If the employer has an NPO, also disclose the components of annual pension cost (ARC, interest on NPO, and adjustment to the ARC), the increase or decrease in the NPO, and the NPO at the end of the year. [GASB 27, paragraph 21.a]	The City CAFR provides the dollar contribution made by the City for the fiscal-year ended June 30, 2000. Additionally, the following statement is made, "As a result for June 30, 2000, the actuary rates are reported to be \$23,046,000 more than paid by the City, which...is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve." [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR notes did not accurately present the APC, ARC, or NPO for the fiscal-year ended June 30, 2000. Only the ARC and NPO were presented through June 30, 1999. Additionally, the statement that the NPO was funded in a reserve was misleading because the reserve was not on the books of the City, but on the books of SDCERS.
FY 2000	5. Sole and agent employers should disclose... For the current year and each of the two preceding years, annual pension cost, percentage of annual pension cost contributed that year, and NPO at the end of that year. (For the first two years, the required information should be presented for the transition year, and for the current and transition year, respectively.) [GASB 27, paragraph 21.b]	The City CAFR presents the ARC, percentage of ARC contributed, and NPO at the end of the year for fiscal-years ended June 30, 1997, 1998 and 1999. [Footnote 10.d. Pension Plans - Three-Year Trend Analysis]	The City CAFR failed to present this data for the fiscal-year ended June 30, 2000 (the current year). The disclosure failed to include the APC for the presented years.
FY 2000	6. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (22 years remaining)." [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that the UAAL was amortized over a 30-year period. Beginning in fiscal year 1997, with the MP-1 agreement, the UAAL was amortized as a level percent of payroll over 40 years for expensing purposes. The City CAFR did not disclose that a 40-year amortization factor resulted in a smaller ARC and a lower NPO balance.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2000	7. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (22 years remaining)." [Footnote 10.b. Pension Plans - Funding Policy] "The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2000 was 21 years." [Footnote 10.c. Pension Plans - Annual Required Contribution]	In different notes, the CAFR stated that the remaining amortization period for the UAAL was 22 and 21 years. The 30-year amortization period was implemented on July 1, 1991. Therefore, as of June 30, 2000, the remaining period was 21 years.
FY 2000	8. Sole and agent employers should disclose... The actuarial valuation date, the actuarial value of plan assets, the actuarial accrued liability, (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll. [GASB 27, paragraph 22.a]	The table presented on page 22 titled "TRUST AND AGENCY FUNDS, PENSION TRUST FUNDS, CITY EMPLOYEES' RETIREMENT SYSTEM" contains combined data for the City and the San Diego Unified Port ("Port") District.	<i>Required Supplemental Information</i> - As presented, the table does not make clear that the Port information is included in the figures presented. The Port's funded ratio was higher than that of the City at this time.
FY 2000	9. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The City CAFR provides a brief description of the population of employees eligible to receive benefits from SDCERS. Under the Funding Policy section, the City CAFR indicates that employer contributions were made using actuarially determined rates and employees were required to contribute a percentage of their annual salary. Additionally, the CAFR provides a brief description of the MP-1 agreement. [Footnote 10. Pension Plans]	The City CAFR did not disclose the retirement benefit enhancements, that the City's fixed rate contributions were less than ARC, the funded ratio trigger threshold of 82.3%, and the financial impact to the City if the trigger threshold was breached.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2000	10. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	"The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO." [Footnote 10.b. Pension Plans - Funding Policy]	This language was first included in the City CAFR for the fiscal-year ended June 30, 1998. The statements are outdated and should have been removed from the note.
FY 2000	11. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	"On November 17, 2000, the SDCERS made a \$23,623,562 payment to retirees, based on the Corbett lawsuit." [Footnote 23.f. Subsequent Events]	The City CAFR failed to disclose the full impact of the Corbett settlement. The Corbett settlement resulted in an increase to the basis used to calculate retirement benefits, which increased the total liability of SDCERS and the City's related obligation. Because the City's contributions were fixed under MP-1, the Corbett settlement resulted in future increases to the reported UAAL and NPO. Additionally, the "contingent" portion of the settlement and its affect on fund assets was not disclosed.
FY 2000	12. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner. [GASB 12, paragraph 10.a]	The City CAFR includes a description of the type of benefit, the employee groups covered, and eligibility requirements. [Footnote 11. Post Retirement Health Insurance]	The City CAFR did not include quantification of employer and participant contributions.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2000	13. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are finances on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. [GASB 12, paragraph 10.e]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2000, expenditures of approximately \$5,413,222 were recognized for such health care benefits." [Footnote 11. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 2000	14. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] Any additional information that the employer believes will help users assess the nature and magnitude of the costs of the employer's commitment to the OPEB. [GASB 12, paragraph 10.f]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2000, expenditures of approximately \$5,413,222 were recognized for such health care benefits." [Footnote 11. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 2000	15. If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. [GASB 10, paragraph 58]	"The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position." [Footnote 18. Contingencies]	The City CAFR failed to disclose noncompliance with certain grant and loan covenants with the State Water Resources Control Board. The violations could have resulted in immediate repayment of grants and acceleration of payments on outstanding loans received for capital improvements in the Metropolitan Wastewater Department.

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	Guidance	Disclosure included in City CAFR	Deficiency
	<u>Fiscal Year 2001 (Issue Date: November 30, 2001)</u>		
FY 2001	1. The ARC and all other actuarially determined pension information included in an employer's financial report should be calculated in accordance with this paragraph...A plan and its participating employer should apply the same actuarial methods and assumptions in determining similar or related information included in their respective financial reports. [GASB 27, paragraph 10]	The City CAFR reports the ARC for fiscal years 1998 through 2000. [Footnote 10.e. Pension Plans - Net Pension Obligation Three Year Trend Analysis] The SDCERS CAFR reports the ARC for fiscal years 1996 through 2001. [Schedule of Employer Contributions - City of San Diego - page 51]	The ARC reported for fiscal years 1998 through 2000 in the City CAFR was higher than the ARC reported for the same years in the SDCERS CAFR. The CAFRs failed to report a consistent ARC for fiscal years 1998 through 2000.
FY 2001	2. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended. [GASB 27, paragraph 20.a.2]	"SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members." [Footnote 10.a. Pension Plans - Plan Description]	The City CAFR did not disclose the authority under which benefit provisions were established. Benefits outlined in the Municipal Code are established under the authority of the <i>City Council</i> .
FY 2001	3. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) are established or may be amended. [GASB 27, paragraph 20.b.1]	The City CAFR includes a description of the funding policy for the employer (City) and the employees. [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2001	4. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or contract, or the plan is financed on a pay-as-you-go basis). [GASB 27 paragraph 20.b.3]	"The City and the District contribute...the remaining amount necessary to fund the system based on an actuarial valuation..." The footnote also describes the "Corridor" funding method and states that the City's actual contribution is more than \$30 million less than the actuarially determined amount. [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The City CAFR failed to disclose that the contribution rate was determined by contract (MP-1).
FY 2001	5. For the current year, annual pension cost and the dollar amount of contributions made. If the employer has an NPO, also disclose the components of annual pension cost (ARC, interest on NPO, and adjustment to the ARC), the increase or decrease in the NPO, and the NPO at the end of the year. [GASB 27, paragraph 21.a]	The City CAFR provides the dollar contribution made by the City for the fiscal-year ended June 30, 2001. Additionally, the following statement is made, "As a result for June 30, 2001, the actuary rates are reported to be \$30,983,000 more than paid by the City, which...is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve." [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR notes did not accurately present the APC, ARC, or NPO for the fiscal-year ended June 30, 2001. This information was only reported through June 30, 2000. Additionally, the statement that the NPO was funded in a reserve was misleading because the reserve was not on the books of the City, but on the books of SDCERS.
FY 2001	6. Sole and agent employers should disclose... For the current year and each of the two preceding years, annual pension cost, percentage of annual pension cost contributed that year, and NPO at the end of that year. (For the first two years, the required information should be presented for the transition year, and for the current and transition year, respectively.) [GASB 27, paragraph 21.b]	The City CAFR presents the annual pension cost, percentage of annual pension cost contributed, and NPO at the end of the year for fiscal-years ended June 30, 1998, 1999 and 2000. [Footnote 10.d. Pension Plans - Three-Year Trend Analysis]	The City CAFR failed to present this data for the fiscal-year ended June 30, 2001 (the current year).

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2001	7. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (20 years remaining)." [Footnote 10.b. Pension Plans - Funding Policy]	The City CAFR falsely stated that the UAAL was amortized over a 30-year period. Beginning in fiscal year 1997, with the MP-1 agreement, the UAAL was amortized as a level percent of payroll over 40 years for expensing purposes. The City CAFR did not disclose that a 40-year amortization factor resulted in a smaller ARC and a lower NPO balance.
FY 2001	8. Sole and agent employers should disclose... The actuarial valuation date, the actuarial value of plan assets, the actuarial accrued liability, (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll. [GASB 27, paragraph 22.a]	The table presented on page 22 titled "TRUST AND AGENCY FUNDS, PENSION TRUST FUNDS, CITY EMPLOYEES' RETIREMENT SYSTEM" contains combined data for the City and the San Diego Unified Port ("Port") District.	<i>Required Supplemental Information</i> - As presented, the table does not make clear that the Port information is included in the figures presented. The Port's funded ratio was higher than that of the City at this time.
FY 2001	9. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The City CAFR provides a brief description of the population of employees eligible to receive benefits from SDCERS. Under the Funding Policy section, the City CAFR indicates that employer contributions were made using actuarially determined rates and employees were required to contribute a percentage of their annual salary. Additionally, the CAFR provides a brief description of the MP-1 agreement. [Footnote 10. Pension Plans]	The City CAFR did not disclose the retirement benefit enhancements, that the City's fixed rate contributions were less than ARC, the funded ratio trigger threshold of 82.3%, and the financial impact to the City if the trigger threshold was breached.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2001	10. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	"The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO." [Footnote 10.b. Pension Plans - Funding Policy]	This language was first included in the City CAFR for the fiscal-year ended June 30, 1998. The statements are outdated and should have been removed from the note.
FY 2001	11. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The Corbett litigation is not disclosed in the City CAFR for the fiscal-year ended June 30, 2001.	The City CAFR failed to disclose the full impact of the Corbett settlement. The Corbett settlement resulted in an increase to the basis used to calculate retirement benefits, which increased the total liability of SDCERS and the City's related obligation. Because the City's contributions were fixed under MP-1, the Corbett settlement resulted in future increases to the reported UAAL and NPO. Additionally, the "contingent" portion of the settlement and its affect on fund assets was not disclosed.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2001	12. The ARC and all other actuarially determined pension information included in an employer's financial report should be calculated in accordance with this paragraph...Benefits to be included--The actuarial present value of total projected benefits should include all pension benefits to be provided by the plan to plan members or beneficiaries in accordance with (1) the terms of the plan and (2) any additional statutory or contractual agreement(s) to provide pension benefits through the plan that are in force at the actuarial valuation date. [GASB 27, paragraph 10.a] <i>See also GASB 27, paragraph 89.</i>	The City CAFR reports the ARC, APC, and NPO for fiscal years 1998 through 2000. [Footnote 10.e. Pension Plans - Net Pension Obligation Three-Year Trend Analysis] The AAL, UAAL, and funded ratio is presented for fiscal years 1995 through 2000 as part of required supplementary information. [Page 22]	The fiscal year 2000 actuarial valuation (issued on February 14, 2001) did not include the "contingent" liability of the Corbett Settlement. Therefore, the reported ARC, APC, NPO, AAL, UAAL, and funded ratio for fiscal year 2000 failed to include the liability associated with the "contingent" portion of the Corbett settlement.
FY 2001	13. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner. [GASB 12, paragraph 10.a]	The City CAFR includes a description of the type of benefit, the employee groups covered, and eligibility requirements. [Footnote 11. Post Retirement Health Insurance]	The City CAFR did not include quantification of employer and participant contributions.
FY 2001	14. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are finances on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. [GASB 12, paragraph 10.c]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2001, expenditures of approximately \$7,207,018 were recognized for such health care benefits." [Footnote 11. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2001	15. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] Any additional information that the employer believes will help users assess the nature and magnitude of the costs of the employer's commitment to the OPEB. [GASB 12, paragraph 10.f]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2001, expenditures of approximately \$7,207,018 were recognized for such health care benefits." [Footnote 11. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 2001	16. If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. [GASB 10, paragraph 58]	"The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position." [Footnote 18. Contingencies]	The City CAFR failed to disclose noncompliance with certain grant and loan covenants with the State Water Resources Control Board. The violations could have resulted in immediate repayment of grants and acceleration of payments on outstanding loans received for capital improvements in the Metropolitan Wastewater Department.

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	Guidance	Disclosure included in City CAFR	Deficiency
	<u>Fiscal Year 2002 (Issue Date: November 27, 2002)</u>		
FY 2002	1. The ARC and all other actuarially determined pension information included in an employer's financial report should be calculated in accordance with this paragraph...A plan and its participating employer should apply the same actuarial methods and assumptions in determining similar or related information included in their respective financial reports. [GASB 27, paragraph 10]	The City CAFR reports the ARC for fiscal years 1999 through 2001. [Footnote 10.f. Pension Plans - Net Pension Obligation Three Year Trend Analysis] The SDCERS CAFR reports the ARC for fiscal years 1997 through 2002. [Schedule of Employer Contributions - City of San Diego - page 49]	The ARC reported for fiscal years 1999 through 2001 in the City CAFR was higher than the ARC reported for the same years in the SDCERS CAFR. The CAFRs failed to report a consistent ARC for fiscal years 1999 through 2001.
FY 2002	2. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended. [GASB 27, paragraph 20.a.2]	"SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members." [Footnote 12.a. Pension Plans - Plan Description]	The City CAFR did not disclose the authority under which benefit provisions were established. Benefits outlined in the Municipal Code are established under the authority of the <i>City Council</i> .
FY 2002	3. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) are established or may be amended. [GASB 27, paragraph 20.b.1]	The City CAFR includes a description of the funding policy for the employer (City) and the employees. [Footnote 12.c. Pension Plans - Funding Policy]	The City CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2002	4. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or contract, or the plan is financed on a pay-as-you-go basis). [GASB 27 paragraph 20.b.3]	"The City and the District contribute...the remaining amount necessary to fund the system based on an actuarial valuation..." The footnote also describes the "Corridor" funding method and states that the City's actual contribution is more than \$39 million less than the actuarially determined amount. [Footnote 12.c. Pension Plans - Funding Policy]	The City CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The City CAFR failed to disclose that the contribution rate was determined by contract (MP-1).
FY 2002	5. For the current year, annual pension cost and the dollar amount of contributions made. If the employer has an NPO, also disclose the components of annual pension cost (ARC, interest on NPO, and adjustment to the ARC), the increase or decrease in the NPO, and the NPO at the end of the year. [GASB 27, paragraph 21.a]	The City CAFR provides the dollar contribution made by the City for the fiscal-year ended June 30, 2002. Additionally, the following statement is made, "As a result for June 30, 2002, the actuary rates are reported to be \$39,230,000 more than paid by the City, which...is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve." [Footnote 12.c. Pension Plans - Funding Policy]	The City CAFR notes did not accurately present the APC, ARC, or NPO for the fiscal-year ended June 30, 2002. This information was only reported through June 30, 2001. Additionally, the statement that the NPO was funded in a reserve was misleading because the reserve was not on the books of the City, but on the books of SDCERS.
FY 2002	6. For the current year, annual pension cost and the dollar amount of contributions made. If the employer has an NPO, also disclose the components of annual pension cost (ARC, interest on NPO, and adjustment to the ARC), the increase or decrease in the NPO, and the NPO at the end of the year. [GASB 27, paragraph 21.a]	"The annual required contribution for the current year was determined as part of the June 30, 1996 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) projected salary increases of 4.75% per year. Both (a) and (b) included an inflation rate of 4.5%." [Footnote 12.d. Pension Plans - Annual Required Contribution]	The City CAFR reported an incorrect valuation date and inflation rate. The valuation date was June 30, 2001 and the inflation rate was 4.25%, per the June 30, 2001 actuarial valuation report.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2002	7. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is closed or open . [GASB 27, paragraph 21.c]	"Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (19 years remaining)." [Footnote 12.c. Pension Plans - Funding Policy]	The City CAFR falsely stated that the UAAL was amortized over a 30-year period. Beginning in fiscal year 1997, with the MP-1 agreement, the UAAL was amortized as a level percent of payroll over 40 years for expensing purposes. The City CAFR did not disclose that a 40-year amortization factor resulted in a smaller ARC and a lower NPO balance.
FY 2002	8. Sole and agent employers should disclose... The actuarial valuation date, the actuarial value of plan assets, the actuarial accrued liability, (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll. [GASB 27, paragraph 22.a]	The table presented on page 28 titled "TRUST AND AGENCY FUNDS, PENSION TRUST FUNDS, CITY EMPLOYEES' RETIREMENT SYSTEM" contains combined data for the City and the San Diego Unified Port ("Port") District.	<i>Required Supplemental Information</i> - As presented, the table does not make clear that the Port information is included in the figures presented. The Port's funded ratio was higher than that of the City at this time.
FY 2002	9. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The City CAFR provides a brief description of the population of employees eligible to receive benefits from SDCERS. Under the Funding Policy section, the City CAFR indicates that employer contributions were made using actuarially determined rates and employees were required to contribute a percentage of their annual salary. Additionally, the CAFR provides a brief description of the MP-1 agreement. [Footnote 12. Pension Plans]	The City CAFR did not disclose the retirement benefit enhancements, that the City's fixed rate contributions were less than ARC, the funded ratio trigger threshold of 82.3%, and the financial impact to the City if the trigger threshold was breached.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2002	10. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The MP-2 agreement is not disclosed in the City CAFR for the fiscal-year ended June 30, 2002.	The City Council approved MP-2 on November 18, 2002. This was before the release of the CAFR for the fiscal-year ended June 30, 2002. The City CAFR failed to disclose the benefit enhancements that resulted from the MP-2 agreement.
FY 2002	11. MD&A requirements established by this Statement are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. At a minimum, MD&A should include: A description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets). [GASB 34, paragraph 11.h]	The MP-2 agreement is not disclosed in the City CAFR for the fiscal-year ended June 30, 2002.	The City Council approved MP-2 on November 18, 2002. This was before the release of the CAFR for the fiscal-year ended June 30, 2002. The City CAFR failed to disclose the key components of the MP-2 agreement and how the agreement affected the funding of the pension plan.
FY 2002	12. Sole and agent employers should disclose... Factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. [GASB 27, paragraph 22.b]	The settlement of the Corbett litigation is not disclosed in the City CAFR for the fiscal-year ended June 30, 2002.	The City CAFR failed to disclose the full impact of the Corbett settlement. The Corbett settlement resulted in an increase to the basis used to calculate retirement benefits, which increased the total liability of SDCERS and the City's related obligation. Because the City's contributions were fixed under MP-1, the Corbett settlement resulted in future increases to the reported UAAL and NPO. Additionally, the "contingent" portion of the settlement and its affect on fund assets was not disclosed.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2002	13. The ARC and all other actuarially determined pension information included in an employer's financial report should be calculated in accordance with this paragraph...Benefits to be included--The actuarial present value of total projected benefits should include all pension benefits to be provided by the plan to plan members or beneficiaries in accordance with (1) the terms of the plan and (2) any additional statutory or contractual agreement(s) to provide pension benefits through the plan that are in force at the actuarial valuation date. [GASB 27, paragraph 10.a] <i>See also GASB 27, paragraph 89.</i>	The City CAFR reports the ARC, APC, and NPO for fiscal years 1999 through 2001. [Footnote 12.f. Pension Plans - Net Pension Obligation Three-Year Trend Analysis] The AAL, UAAL, and funded ratio is presented for fiscal years 1996 through 2001 as part of required supplementary information. [Page 28]	The fiscal year 2000 and 2001 actuarial valuations did not include the "contingent" liability of the Corbett Settlement. Therefore, the reported ARC, APC, NPO, AAL, UAAL, and funded ratio for fiscal year 2000 and 2001 failed to include the liability associated with the "contingent" portion of the Corbett settlement.
FY 2002	14. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner. [GASB 12, paragraph 10.a]	The City CAFR includes a description of the type of benefit, the employee groups covered, and eligibility requirements. [Footnote 13. Post Retirement Health Insurance]	The City CAFR did not include quantification of employer and participant contributions.
FY 2002	15. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are finances on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. [GASB 12, paragraph 10.c]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2002, expenditures of approximately \$8,882,138 were recognized for such health care benefits." [Footnote 13. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.

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	Guidance	Disclosure included in City CAFR	Deficiency
FY 2002	16. An employer that provides OPEB should disclose, as a minimum, the information in this paragraph. [GASB 12, paragraph 10] Any additional information that the employer believes will help users assess the nature and magnitude of the costs of the employer's commitment to the OPEB. [GASB 12, paragraph 10.f]	"Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2002, expenditures of approximately \$8,882,138 were recognized for such health care benefits." [Footnote 13. Post Retirement Health Insurance]	The City CAFR did not disclose that Post-Retirement Health Insurance benefits were paid through "surplus" SDCERS' earnings or that the City was responsible for paying these benefits in the event that SDCERS' earnings were insufficient.
FY 2002	17. MD&A requirements established by this Statement are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. At a minimum, MD&A should include: A description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets). [GASB 34, paragraph 11.h]	The under-pricing of Purchased Service Credits is not disclosed in the City CAFR for the fiscal-year ended June 30, 2002.	The City CAFR did not disclose that Purchased Service Credits were being sold at a price too low to offset the resulting liability.
FY 2002	18. The statement of net assets and the statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. [GASB 34, paragraph 16]	"For the fiscal-year ended June 30, 2002, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34 'Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.'" [Management's Discussion and Analysis - page 3]	The City financial statements in the June 30, 2002 CAFR did not use full accrual accounting to recognize certain tax revenues.

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FY 2002

	Guidance	Disclosure included in City CAFR	Deficiency
19.	<p>If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. [GASB 10, paragraph 58]</p> <p>In their disclosure of significant violations of finance-related legal or contractual provisions, governments should identify actions taken to address such violations. [GASB 38, paragraph 9]</p>	<p>"The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position." [Footnote 18. Contingencies]</p>	<p>The City CAFR failed to disclose that the City was in violation of certain grant and loan covenants with the State Water Resources Control Board. The violations could have resulted in immediate repayment of grants and acceleration of payments on outstanding loans received for capital improvements in the Metropolitan Wastewater Department. Additionally, the City CAFR failed to disclose the actions taken to address this violation.</p>

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 1996 (Issued concurrently with FY 1997 on February 20, 1998)</u>		
FY 1996	1. A brief statement about benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established. [GASB 5, paragraph 30.a.3]	The SDCERS CAFR provides details on benefit provisions and employee eligibility requirements, including eligibility for vesting. [Footnote 1. Description of the Plan]	The SDCERS CAFR did not disclose the authority under which benefit provisions were established. Benefits outlined in the Municipal Code are established under the authority of the <i>City Council</i> .
FY 1996	2. Employer and employee obligations to contribute and the authority under which those obligations are established. [GASB 5, paragraph 30.a.4]	The SDCERS CAFR provides a summary of the City contributions and member contributions. [Footnote 1. Description of the Plan]	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.
FY 1996	3. The timing, nature and total dollar effect of any changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, or other factors that significantly affect the information presented in a and b should be disclosed for the year in which the changes are made. [GASB 5, paragraph 32]	The SDCERS CAFR does not provide a description of the MP-1 agreement. [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR failed to disclose the key components of the MP-1 agreement, which was approved on July 2, 1996. The MP-1 agreement changed actuarial assumptions, enhanced retirement benefits, and modified the funding method of SDCERS.
FY 1996	4. The 10-year historical trend information required to be disclosed is: [GASB 5, paragraph 32]	<i>See below.</i>	<i>See below.</i>
FY 1996	4.a Net assets available for benefits (as of the same date as the pension benefit obligation and as valued for PERS balance sheet purposes), the pension benefit obligation, and the former expressed as a percentage of the latter; also unfunded [assets in excess of] pension benefit obligation, annual covered payroll, and the former expressed as a percentage of the latter. [GASB 5, paragraph 32.a]	The SDCERS CAFR provides, for fiscal-years ended June 30, 1989 through 1996, the net assets available for benefits, the pension benefit obligation, the funded ratio, the unfunded pension benefit obligation, annual covered payroll, and the unfunded obligation as a percentage of covered payroll. [Section Four: Actuarial - page 37]	The SDCERS CAFR failed to disclose the required information for a full 10-year period.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1996	4.b Revenues by source (employer contributions, employee contributions, investment income, and other income) and expenses by type (benefit payments, administrative expenses, refunds of employee contributions, and other expenses).... [GASB 5, paragraph 32.b]	The SDCERS CAFR does not provide the required 10-year historical trend information.	The SDCERS CAFR failed to disclose the required 10-year historical trend information.

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 1997 (Issue concurrently with FY96 on February 20, 1998)</u>		
FY 1997	1. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases , and the authority under which benefit provisions are established or may be amended." [GASB 25, paragraph 32.a.3]	The SDCERS CAFR provides details on benefit provisions, including the types of benefits, and the automatic and ad hoc post-retirement benefit increases. [Footnote 1. Description of the Plan]	The SDCERS CAFR did not disclose the authority under which benefit provisions were established or amended. Benefits outlined in the Municipal Code are established and amended under the authority of the <i>City Council</i> .
FY 1997	2. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended." [GASB 25, paragraph 32.c.1]	The SDCERS CAFR provides a summary of the City contributions and member contributions. [Footnote 1. Description of the Plan]	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1997	3. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph...Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed." [GASB 25, paragraph 32.c.2] "Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date." [GASB 25, paragraph 32.c.4]	"SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that...are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method...Employees are required to contribute a percentage of their annual salary to the Plan...The City and District contribute...the remaining amount necessary to fund the system based on an actuarial valuation..." [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR falsely stated that the pension plan was funded at the projected unit credit actuarial rate in the fiscal-year ended June 30, 1997. The rate contributed by the City for fiscal year 1997 differed from the ARC, but the notes to the financial statements failed to disclose how the rate was determined (by contract - MP-1).
FY 1997	4. Except as indicated in paragraph 34, a schedule of funding progress and a schedule of employer contributions should be presented <i>immediately after</i> the notes to the financial statements. [GASB 25, paragraph 33]	The SDCERS CAFR provides a schedule of funding progress in the Actuarial section, which precedes the notes to the financial statements. The Actuarial section is dated April 2, 1997. [Section Four: Actuarial]	The SDCERS CAFR failed to present a schedule of employer contributions. Additionally, the schedule of funding progress was presented in the Actuarial section rather than <i>immediately after</i> the notes to the financial statements.
FY 1997	5. The following note disclosures should accompany the schedules of required supplementary information: [GASB 25, paragraph 40]	<i>See below.</i>	<i>See below.</i>
FY 1997	5.a Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules, including... [GASB 25, paragraph 40.a]	The SDCERS CAFR presents the actuarial methods and significant assumptions used for the most recent year in the Actuarial section of the CAFR, which also includes the required supplementary information. [Section Four: Actuarial]	The SDCERS CAFR failed to present this information, and the required supplementary information, <i>immediately after</i> the notes to the financial statements.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1997	5.b Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	The SDCERS CAFR includes a description of major plan provisions. Additionally, the following statements are made, "The funding objective of the Plan is to establish and receive contributions, expressed as percentages of payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens....Contributions are determined by an annual actuarial valuation using assumptions which generate sufficient Plan assets to..." [Footnote 1. Description of the Plan]	The SDCERS CAFR failed to disclose the key components of the MP-1 agreement. The CAFR did not disclose the retirement benefit enhancements made as part of MP-1, the fixed contribution rates being made by the City (and that the fixed rates were less than ARC), the trigger threshold of 82.3%, and the impact on City contribution rates if the trigger threshold was breached.
FY 1997	6. When a defined benefit pension plan administers a postemployment healthcare plan, the financial report of the defined benefit pension plan should include....The notes also should include a brief description of the eligibility requirements for postemployment healthcare benefits and the required contribution rate(s) for employer(s). [GASB 26, paragraph 7]	"Reserved for Retiree Health Insurance - Funds set aside to provide health benefits to Health Eligible and Non-Health Eligible Retirees." [Footnote 5. Reserves and Designations of Plan Assets]	The SDCERS CAFR failed to include a brief description of the eligibility requirements for postemployment healthcare and the required contribution rates of the City.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 1998 (Issue Date: December 3, 1998)</u>		
FY 1998	1. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases , and the authority under which benefit provisions are established or may be amended." [GASB 25, paragraph 32.a.3]	The SDCERS CAFR provides details on benefit provisions, including the types of benefits, and the automatic and ad hoc post-retirement benefit increases. [Footnote 1. Description of the Plan]	The SDCERS CAFR did not disclose the authority under which benefit provisions were established or amended. Benefits outlined in the Municipal Code are established and amended under the authority of the <i>City Council</i> . Additionally, automatic and ad hoc postretirement benefit increases are not adequately described.
FY 1998	2. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended." [GASB 25, paragraph 32. c.1]	The SDCERS CAFR provides a summary of the City contributions [Footnote 1. Description of the Plan] and a brief description of member contributions [Footnote 3. Contributions Required and Contributions Made].	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1998	3. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph...Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed." [GASB 25, paragraph 32.c.2] "Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date." [GASB 25, paragraph 32.c.4]	"SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (23 years remaining)." [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR falsely stated that the pension plan was funded at the projected unit credit actuarial rate. The rate contributed by the City for fiscal year 1998 was less than ARC, but the notes to the financial statements failed to disclose how the rate was determined (by contract - MP-1).
FY 1998	4. A schedule of funding progress and a schedule of employer contributions (required supplementary information) should be presented <i>immediately after</i> the notes to the financial statements. [GASB 25, paragraph 33]	The SDCERS CAFR includes a schedule of funding progress in the Actuarial section. [Section Four: Actuarial]	The SDCERS CAFR failed to include a schedule of employer contributions. Additionally, the schedule of funding progress was included <i>before</i> the notes to the financial statements.
FY 1998	5. The following note disclosures should accompany the schedules of required supplementary information: [GASB 25, paragraph 40]	<i>See below.</i>	<i>See below.</i>
FY 1998	5.a Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules, including... [GASB 25, paragraph 40.a]	The SDCERS CAFR presents the actuarial methods and significant assumptions used for the most recent year in the Actuarial section of the CAFR, which also includes the required supplementary information. [Section Four: Actuarial]	The SDCERS CAFR failed to present this information, and the required supplementary information, <i>immediately after</i> the notes to the financial statements.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1998	5.b Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	The SDCERS CAFR includes a description of major plan provisions. Additionally, the following statements are made, "The funding objective of the Plan is to establish and receive contributions, expressed as percentages of payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens....Contributions are determined by an annual actuarial valuation using assumptions which generate sufficient Plan assets to..." [Footnote 1. Description of the Plan]	The SDCERS CAFR failed to disclose the key components of the MP-1 agreement that affected funding of the Plan: the fixed contribution rates being made by the City (and that the fixed rates were less than ARC), the trigger threshold of 82.3%, and the impact on City contribution rates if the trigger threshold was breached.
FY 1998	5.c Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	The Corbett litigation is not disclosed in the SDCERS CAFR.	The Corbett lawsuit was filed on July 16, 1998. The litigation threatened to increase the salary factor used to calculate retirement benefits. The SDCERS CAFR failed to disclose the pending lawsuit and its potential affect on the amounts reported for the pension plan.

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FY 1998

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	6. When a defined benefit pension plan administers a postemployment healthcare plan, the financial report of the defined benefit pension plan should include....The notes also should include a brief description of the eligibility requirements for postemployment healthcare benefits and the required contribution rate(s) for employer(s). [GASB 26, paragraph 7]	"Reserve for Retiree Health Insurance - Funds set aside in a 401(h) Trust to provide health benefits to Health Eligible and Non-Health Eligible Retirees." [Footnote 5. Retirement Trust Fund Reserves]	The SDCERS CAFR failed to include a brief description of the eligibility requirements for postemployment healthcare and the required contribution rates of the City.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 1999 (Issue Date: August 31, 2000)</u>		
FY 1999	1. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases , and the authority under which benefit provisions are established or may be amended." [GASB 25, paragraph 32.a.3]	"SDCERS is a public employee retirement system established in 1927 by the City of San Diego...to provide retirement, disability, death and survivor benefits to its members. [Footnote 1. Plan Description] The SDCERS CAFR provides details on benefit provisions, including the types of benefits, and the automatic and ad hoc postretirement benefit increases in the Actuarial section. [Section Four: Actuarial]	The SDCERS CAFR failed to provide a description of benefit provisions, including automatic and ad hoc postretirement benefit increases in the <i>notes to the financial statements</i> . The description of automatic and ad hoc postretirement benefit increases in the Actuarial section was insufficient. Additionally, the SDCERS CAFR did not disclose the authority under which benefit provisions were established or amended. Benefits outlined in the Municipal Code are established and amended under the authority of the <i>City Council</i> .
FY 1999	2. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended." [GASB 25, paragraph 32.c.1]	The SDCERS CAFR provides a summary of the City contributions and member contributions. [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1999	3. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph...Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed." [GASB 25, paragraph 32.c.2] "Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date." [GASB 25, paragraph 32.c.4]	"SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (22 years remaining)." [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR falsely stated that the pension plan was funded at the projected unit credit actuarial rate. The rate contributed by the City for fiscal year 1999 was less than ARC, but the notes to the financial statements failed to disclose how the rate was determined (by contract - MP-1).
FY 1999	4. The schedule of employer contributions should present the following information for each of the past six consecutive fiscal years of the plan, at a minimum: (a) the dollar amount of the ARC applicable to that year..." [GASB 25, paragraph 38]	The SDCERS CAFR presents the schedule of employer contributions for the fiscal-years ended June 30, 1993 through 1998. The schedule only includes <i>actual</i> employer contributions for those years. [Schedule of Employer Contributions - Page 31]	The SDCERS CAFR failed to present the employer contribution for the current year (fiscal-year ended June 30, 1999) and failed to present the ARC for fiscal-years ended June 30, 1997 through 1999. Due to the MP-1 agreement, employer contributions differed from ARC for the last three fiscal years.
FY 1999	5. The following note disclosures should accompany the schedules of required supplementary information: [GASB 25, paragraph 40]	<i>See below.</i>	<i>See below.</i>
FY 1999	5.a Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules, including... [GASB 25, paragraph 40.a]	The SDCERS CAFR presents the actuarial methods and significant assumptions used for the most recent year in the Actuarial section of the CAFR. [Section Four: Actuarial]	The SDCERS CAFR failed to present this information with the required supplementary information, which appeared immediately after the notes to the financial statements [Section Two: Financial Section].

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1999	5.b Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	"The City and the District contribute...the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method..." [Footnote 3. Contributions Required and Contributions Made] Additionally, the SDCERS CAFR provides the City contribution rates under MP-1, the threshold for the trigger, and states "this funding method is not one of the six approved funding methods under rules set by the Governmental Accounting Standards Board (GASB)..." [Schedule of Employer Contributions - Page 31]	The SDCERS CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The disclosure did not indicate that the City's contribution rates were determined by contract (MP-1).
FY 1999	5.c Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	The Corbett litigation is not disclosed in the SDCERS CAFR.	The Corbett lawsuit was filed on July 16, 1998. The litigation threatened to increase the salary factor used to calculate retirement benefits. The SDCERS CAFR failed to disclose the pending lawsuit and its potential affect on the amounts reported for the pension plan.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 1999	6. When a defined benefit pension plan administers a postemployment healthcare plan, the financial report of the defined benefit pension plan should include....The notes also should include a brief description of the eligibility requirements for postemployment healthcare benefits and the required contribution rate(s) for employer(s). [GASB 26, paragraph 7]	"Reserve for Retiree Health Insurance - Funds set aside in a 401(h) Trust to provide health benefits to Health Eligible and Non Health Eligible Retirees." [Footnote 5. Retirement Trust Fund - Reserves]	The SDCERS CAFR failed to include a brief description of the eligibility requirements for postemployment healthcare and the required contribution rates of the City.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 2000 (Issue Date: November 22, 2000)</u>		
FY 2000	1. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases , and the authority under which benefit provisions are established or may be amended." [GASB 25, paragraph 32.a.3]	"SDCERS is a public employee retirement system established in 1927 by the City of San Diego...to provide retirement, disability, death and survivor benefits to its members. [Footnote 1. Plan Description] The SDCERS CAFR provides details on benefit provisions, including the types of benefits, and the automatic and ad hoc postretirement benefit increases in the Actuarial section. [Section Four: Actuarial]	The SDCERS CAFR failed to provide a description of benefit provisions, including automatic and ad hoc postretirement benefit increases in the <i>notes to the financial statements</i> . The description of automatic and ad hoc postretirement benefit increases in the Actuarial section was insufficient. Additionally, the SDCERS CAFR did not disclose the authority under which benefit provisions were established or amended. Benefits outlined in the Municipal Code are established and amended under the authority of the <i>City Council</i> .
FY 2000	2. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended." [GASB 25, paragraph 32.c.1]	The SDCERS CAFR provides a summary of the City contributions and member contributions. [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2000	3. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph...Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed." [GASB 25, paragraph 32.c.2] "Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date." [GASB 25, paragraph 32.c.4]	"SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (21 years remaining)." [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR falsely stated that the pension plan was funded at the projected unit credit actuarial rate. The rate contributed by the City for fiscal year 2000 was less than ARC, but the notes to the financial statements failed to disclose how the rate was determined (by contract - MP-1).
	4. The schedule of employer contributions should present the following information for each of the past six consecutive fiscal years of the plan, at a minimum: (a) the dollar amount of the ARC applicable to that year..." [GASB 25, paragraph 38]	The SDCERS CAFR presents the schedule of employer contributions for the fiscal-years ended June 30, 1995 through 2000. The schedule only includes <i>actual</i> employer contributions for those years. [Schedule of Employer Contributions - Page 45]	The SDCERS CAFR failed to present the ARC for fiscal-years ended June 30, 1997 through 2000. Due to the MP-1 agreement, employer contributions differed from ARC for the last four fiscal years.
FY 2000	5. The following note disclosures should accompany the schedules of required supplementary information: [GASB 25, paragraph 40]	<i>See below.</i>	<i>See below.</i>
FY 2000	5.a Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules, including... [GASB 25, paragraph 40.a]	The SDCERS CAFR presents the actuarial methods and significant assumptions used for the most recent year in the Actuarial section of the CAFR. [Section Four: Actuarial]	The SDCERS CAFR failed to present this information with the required supplementary information, which appeared immediately after the notes to the financial statements [Section Two: Financial Section].

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2000	5.b Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	"The City and the District contribute...the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method..." [Footnote 3. Contributions Required and Contributions Made] Additionally, the SDCERS CAFR provides the contribution rates under MP-1, the threshold for the trigger, and states "this method is not one of the six approved funding methods under rules set by the Governmental Accounting Standards Board (GASB)..." [Schedule of Employer Contributions - Page 45]	The SDCERS CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The disclosure did not indicate that the City's contribution rates were determined by contract (MP-1).

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2000	6. Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	The SDCERS CAFR describes the Corbett Settlement as a Subsequent Event. "In March 2000, all of the parties and counsel in this case participated in mediation. As a result of this mediation, the parties and counsel were able to reach on agreement to settle the case. The terms of the settlement were effective as of July 1, 2000." Additionally, the footnote states, "To the extent this increase is not paid in any year because there are insufficient Surplus Undistributed Earnings, the liability for this increase shall be carried forward as a contingent liability which will be paid in future years in which there are sufficient Surplus Undistributed Earnings to pay for the increase." [Footnote 8. Subsequent Event Disclosure Corbett Settlement, Effective July 1, 2000]	The SDCERS CAFR provided misleading and inaccurate information related to the Corbett Settlement as follows: (1) disclosing the Corbett Settlement as a Subsequent Event based on the effective date is misleading as the terms of the settlement were reached in March of 2000 and the settlement was approved by the court in May of 2000; (2) as the obligation accrues in the years it is not paid, it is not a "contingent" liability; and (3) the impact on the UAAL (increase) and funded ratio (decrease) resulting from the Corbett Settlement were not discussed.
FY 2000	7. When a defined benefit pension plan administers a postemployment healthcare plan, the financial report of the defined benefit pension plan should include....The notes also should include a brief description of the eligibility requirements for postemployment healthcare benefits and the required contribution rate(s) for employer(s). [GASB 26, paragraph 7]	"Reserve for Retiree Health Insurance - Funds set aside in a 401(h) Trust to provide health benefits to Health Eligible and Non-Health Eligible Retirees." [Footnote 6. Retirement Trust Fund - Reserves]	The SDCERS CAFR failed to include a brief description of the eligibility requirements for postemployment healthcare and the required contribution rates of the City.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 2001 (Issue Date: November 30, 2001)</u>		
FY 2001	1. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases , and the authority under which benefit provisions are established or may be amended." [GASB 25, paragraph 32.a.3]	"SDCERS is the agent of a multi-employer, defined benefit retirement system...administered by the SDCERS Board...to provide retirement, disability, death and survivor benefits to its members. [Footnote 1. Plan Description] The SDCERS CAFR provides details on benefit provisions, including the types of benefits, and the automatic and ad hoc postretirement benefit increases in the Actuarial section. [Section Four: Actuarial]	The SDCERS CAFR failed to provide a description of benefit provisions, including automatic and ad hoc postretirement benefit increases in the <i>notes to the financial statements</i> . The description of automatic and ad hoc postretirement benefit increases in the Actuarial section was insufficient. Additionally, the SDCERS CAFR did not disclose the authority under which benefit provisions were established or amended. Benefits outlined in the Municipal Code are established and amended under the authority of the <i>City Council</i> .
FY 2001	2. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended." [GASB 25, paragraph 32.c.1]	The SDCERS CAFR provides a summary of the City contributions and member contributions. [Footnote 3. Contributions Required and Contributions Made]	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2001	<p>3. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph...Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed." [GASB 25, paragraph 32.c.2] "Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date." [GASB 25, paragraph 32.c.4]</p>	<p>"SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized (closed amortization) as a level percent of payroll over a period of 30 years (20 years remaining), which began July 1, 1991." [Footnote 3. Contributions Required and Contributions Made]</p>	<p>The SDCERS CAFR falsely stated that the pension plan was funded at the projected unit credit actuarial rate. The rate contributed by the City for fiscal year 2001 was less than ARC, but the notes to the financial statements failed to disclose how the rate was determined (by contract - MP-1).</p>
FY 2001	<p>4. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "The balances in the plan's legally required reserves at the reporting date. Amounts of net assets designated by the plan's board of trustees or other governing body for a specific purpose(s) also may be disclosed but should be captioned <i>designations</i>, rather than <i>reserves</i>. Also include a brief description of the purpose of each reserve and designation disclosed and whether the reserve is fully funded." [GASB 25, paragraph 32.c.5]</p>	<p>The SDCERS CAFR includes a schedule of Reserve balances at June 30, 2000 and 2001. Additionally, the two subsequent pages provides descriptions of the various reserve accounts. A "Reserve for Contingencies" of \$105,848,108 was first reported for June 30, 2001. [Footnote 6. Retirement Trust Fund - Reserves]</p>	<p>The SDCERS CAFR failed to provide a description of this reserve account for the fiscal-year ended June 30, 2001. The SDCERS CAFR for the following fiscal year stated that the reserve was "established in FY 2001 to fund future benefit changes as a result of the FY 2002 Meet and Confer process." This reserve was transferred to "<i>Reserved for Employers' Contributions</i>" in the fiscal-year ended June 30, 2002.</p>

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	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2001	5. The following note disclosures should accompany the schedules of required supplementary information: [GASB 25, paragraph 40]	<i>See below.</i>	<i>See below.</i>
	5.a Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules, including... [GASB 25, paragraph 40.a]	The SDCERS CAFR presents the actuarial methods and significant assumptions used for the most recent year in the Actuarial section of the CAFR. [Section Four: Actuarial]	The SDCERS CAFR failed to present this information with the required supplementary information, which appeared immediately after the notes to the financial statements [Section Two: Financial Section].
FY 2001	5.b Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	"The City and the District contribute...the remaining amount necessary to fund SDCERS based on actuarial valuation..." [Footnote 3. Contributions Required and Contributions Made] Additionally, the SDCERS CAFR provides the City contribution rates under MP-1, the threshold for the trigger, and states "this method is not one of the six approved funding methods under rules set by" GASB. [Schedule of Employer Contributions - Page 51] "Beginning in 1996, the City negotiated with SDCERS to contribute a 'City-Paid Rate' which is essentially a fixed contribution rate schedule....this fixed rate arrangement is not one of the six approved funding methods under the rules set by the Governmental Accounting Standards Board (GASB)." [Notes to the Schedules of Trend Information - Page 54]	The SDCERS CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The disclosure did not indicate that the City's contribution rates were determined by contract (MP-1).

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2001	<p>6. Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]</p>	<p>The SDCERS CAFR describes the Corbett Settlement as a Subsequent Event. "In March 2000, all of the parties and counsel in this case participated in mediation. As a result of this mediation, the parties and counsel were able to reach on agreement to settle the case. The terms of the settlement were effective as of July 1, 2000." Additionally, the footnote states, "To the extent this increase is not paid in any year because there are insufficient Surplus Undistributed Earnings, the liability for this increase shall be carried forward as a contingent liability which will be paid in future years in which there are sufficient Surplus Undistributed Earnings to pay for the increase." [Footnote 7. Subsequent Event Disclosure]</p>	<p>The SDCERS CAFR provided misleading and inaccurate information related to the Corbett Settlement as follows: (1) disclosing the Corbett Settlement as a Subsequent Event in the CAFR for the fiscal-year ended June 30, 2001 is inaccurate because the terms of the settlement were reached in March of 2000 and the effective date was July 1, 2000; (2) as the obligation accrues in the years it is not paid, it is not a "contingent" liability; and (3) the impact on the UAAL (increase) and funded ratio (decrease) resulting from the Corbett Settlement were not discussed.</p>
FY 2001	<p>7. For financial reporting purposes, all actuarially determined pension information should be calculated in accordance with this paragraph...Benefits to be included--The actuarial present value of total projected benefits should include all pension benefits to be provided by the plan to plan members or their beneficiaries in accordance with (1) the terms of the plan and (2) any additional statutory or contractual agreement(s) to provide pension benefits through the plan that are in force at the actuarial valuation date. [GASB 25, paragraph 36.a] See also GASB 27, paragraph 89.</p>	<p>The SDCERS CAFR reports the ARC for fiscal years 1996 through 2001. [Schedule of Employer Contributions - page 51] The AAL, UAAL, and funded ratio is presented for fiscal years 1993 through 2000. [Schedule of Funding Progress - page 50]</p>	<p>The fiscal year 2000 and 2001 actuarial valuations did not include the "contingent" liability of the Corbett Settlement. Therefore, the reported ARC, AAL, UAAL, and funded ratio for fiscal years 2000 and 2001 failed to include the liability associated with the "contingent" portion of the Corbett settlement.</p>

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2001	8. When a defined benefit pension plan administers a postemployment healthcare plan, the financial report of the defined benefit pension plan should include....The notes also should include a brief description of the eligibility requirements for postemployment healthcare benefits and the required contribution rate(s) for employer(s). [GASB 26, paragraph 7]	"Reserve for Retiree Health Insurance - Funds set aside in a 401(h) Trust to provide health benefits to Health Eligible and Non-Health Eligible Retirees." [Footnote 6. Retirement Trust Fund - Reserves]	The SDCERS CAFR failed to include a brief description of the eligibility requirements for postemployment healthcare and the required contribution rates of the City.

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 2002 (Issue Date: November 1, 2002)</u>		
FY 2002	1. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases , and the authority under which benefit provisions are established or may be amended." [GASB 25, paragraph 32.a.3]	"SDCERS is the agent of a multi-employer, defined benefit retirement system...administered by SDCERS' Board...to provide service retirement, disability retirement, death and survivor benefits to its members. [Footnote 1. Plan Description] The SDCERS CAFR provides details on benefit provisions, including the types of benefits, and the automatic and ad hoc postretirement benefit increases in the Actuarial section. [Section Four: Actuarial]"	The SDCERS CAFR failed to provide a description of benefit provisions, including automatic and ad hoc postretirement benefit increases in the <i>notes to the financial statements</i> . The description of automatic and ad hoc postretirement benefit increases in the Actuarial section was insufficient. Additionally, the SDCERS CAFR did not disclose the authority under which benefit provisions were established or amended. Benefits outlined in the Municipal Code are established and amended under the authority of the <i>City Council</i> .
FY 2002	2. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended." [GASB 25, paragraph 32.c.1]	The SDCERS CAFR provides a summary of the City contributions and member contributions. [Footnote 4. Contributions Required and Contributions Made]"	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2002	3. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph...Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed." [GASB 25, paragraph 32.c.2] "Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date." [GASB 25, paragraph 32.c.4]	"SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. In addition to employer contributions, the City of San Diego's unfunded actuarial accrued liability (UAAL) is being funded as a level percent of payroll over a 30-year, closed amortization, which began July 1, 1991 (19 years remaining)."	The SDCERS CAFR falsely stated that the pension plan was funded at the projected unit credit actuarial rate. The rate contributed by the City for fiscal year 2002 was less than ARC, but the notes to the financial statements failed to disclose how the rate was determined (by contract - MP-1).
FY 2002	4. The following note disclosures should accompany the schedules of required supplementary information: [GASB 25, paragraph 40]	<i>See below.</i>	<i>See below.</i>
FY 2002	4.a Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules, including... [GASB 25, paragraph 40.a]	The SDCERS CAFR presents the actuarial methods and significant assumptions used for the most recent year in the Actuarial section of the CAFR. [Section Four: Actuarial]	The SDCERS CAFR failed to present this information with the required supplementary information, which appeared immediately after the notes to the financial statements [Section Two: Financial Section].

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

FY 2002

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
4.b	Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	"The City and the District contribute...the remaining amount necessary to fund the Retirement System Trust Fund based on an actuarial valuation..." [Footnote 4. Contributions Required and Contributions Made] Additionally, the SDCERS CAFR provides the City contribution rates under MP-1, the threshold for the trigger, and states "this method is not one of the six approved funding methods under rules set by" GASB. [Schedule of Employers' Contributions Page 49] "Beginning in 1996, the City negotiated with SDCERS to contribute a 'City-Paid Rate' which is essentially a fixed contribution rate schedule....this fixed rate arrangement is not one of the six approved funding methods under the rules set by" GASB. [Notes to the Schedules of Trend Information - Page 51]	The SDCERS CAFR described two contradicting funding policies. One falsely stated that the City was making contributions based on an actuarial valuation under the projected unit credit method. The other provided a brief description of the "Corridor" method implemented with MP-1. The disclosure did not indicate that the City's contribution rates were determined by contract (MP-1).

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2002	<p>5. For financial reporting purposes, all actuarially determined pension information should be calculated in accordance with this paragraph...Benefits to be included--The actuarial present value of total projected benefits should include all pension benefits to be provided by the plan to plan members or their beneficiaries in accordance with (1) the terms of the plan and (2) any additional statutory or contractual agreement(s) to provide pension benefits through the plan that are in force at the actuarial valuation date. [GASB 25, paragraph 36.a] <i>See also GASB 27, paragraph 89.</i></p>	<p>The SDCERS CAFR reports the ARC for fiscal years 1997 through 2002. [Schedule of Employer Contributions - page 49] The AAL, UAAL, and funded ratio is presented for fiscal years 1993 through 2001. [Schedule of Funding Progress - page 48]</p>	<p>The fiscal year 2000, 2001, and 2002 actuarial valuations did not include the "contingent" liability of the Corbett Settlement. Therefore, the reported ARC, AAL, UAAL, and funded ratio for fiscal years 2000 through 2002 failed to include the liability associated with the "contingent" portion of the Corbett settlement.</p>
FY 2002	<p>6. When a defined benefit pension plan administers a postemployment healthcare plan, the financial report of the defined benefit pension plan should include....The notes also should include a brief description of the eligibility requirements for postemployment healthcare benefits and the required contribution rate(s) for employer(s). [GASB 26, paragraph 7]</p>	<p>"Reserve for Retiree Health Insurance - Funds set aside in a 401(h) Trust to provide health benefits to Health Eligible and Non-Health Eligible Retirees." [Footnote 7. Retirement System Trust Fund - Reserves]</p>	<p>The SDCERS CAFR failed to include a brief description of the eligibility requirements for postemployment healthcare and the required contribution rates of the City.</p>

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
	<u>Fiscal Year 2003 (Issue Date: December 1, 2003)</u>		
FY 2003	1. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases , and the authority under which benefit provisions are established or may be amended." [GASB 25, paragraph 32.a.3]	"SDCERS is the agent of a multi-employer, defined benefit Retirement System...administered by SDCERS' Board to provide service retirement, disability retirement, death and survivor benefits to its members. [Footnote 1. Plan Description] The SDCERS CAFR provides details on benefit provisions, including the types of benefits, and the automatic and ad hoc postretirement benefit increases in the Actuarial section. [Section Four: Actuarial]"	The SDCERS CAFR failed to provide a description of benefit provisions, including automatic and ad hoc postretirement benefit increases in the <i>notes to the financial statements</i> . The description of automatic and ad hoc postretirement benefit increases in the Actuarial section was insufficient. Additionally, the SDCERS CAFR did not disclose the authority under which benefit provisions were established or amended. Benefits outlined in the Municipal Code are established and amended under the authority of the <i>City Council</i> .
FY 2003	2. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph..." "Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended." [GASB 25, paragraph 32.c.1]	The SDCERS CAFR provides a summary of the City contributions and member contributions. [Footnote 4. Contributions Required and Contributions Made]"	The SDCERS CAFR did not disclose the authority under which the obligations to contribute to the plan were established.

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2003	<p>3. "The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph...Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed." [GASB 25, paragraph 32.c.2] "Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date." [GASB 25, paragraph 32.c.4]</p>	<p>"SDCERS' funding policy provides for periodic plan sponsor (employer) contributions at actuarially determined rates...designed to accumulate sufficient assets to pay vested benefits...The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method." The same footnote also provides a brief description of the MP 2 agreement and states, "Certain provisions in the Contribution Agreement provide for additional annual City employer contributions to be made to SDCERS should the City's SDCERS' funded status drop below 82.3%." [Footnote 4. Contributions Required and Contributions Made]</p>	<p>The SDCERS CAFR provided misleading information related to the City's contribution rates. The notes to the financial statements failed to disclose that the City's actual contribution rates under MP-1 and MP-2 were less than ARC and were not based on actuarially determined rates. Additionally, by June 30, 2003, it was known that the funded status of SDCERS had dropped below 82.3%. The SDCERS CAFR failed to disclose the impact of breaching the funding floor.</p>
FY 2003	<p>4. For financial reporting purposes, all actuarially determined pension information should be calculated in accordance with this paragraph...Benefits to be included--The actuarial present value of total projected benefits should include all pension benefits to be provided by the plan to plan members or their beneficiaries in accordance with (1) the terms of the plan and (2) any additional statutory or contractual agreement(s) to provide pension benefits through the plan that are in force at the actuarial valuation date. [GASB 25, paragraph 36.a] See also GASB 27, paragraph 89.</p>	<p>The SDCERS CAFR reports the ARC for fiscal years 1998 through 2003. [Schedule of Employer Contributions - page 69] The AAL, UAAL, and funded ratio is presented for fiscal years 1993 through 2002. [Schedule of Funding Progress - page 66]</p>	<p>The fiscal year 2000, 2001, 2002, and 2003 actuarial valuations did not include the "contingent" liability of the Corbett Settlement. Therefore, the reported ARC, AAL, UAAL, and funded ratio for fiscal years 2000 through 2003 failed to include the liability associated with the "contingent" portion of the Corbett settlement.</p>

San Diego City Employees' Retirement System ("SDCERS") Comprehensive Annual Financial Report ("CAFR")

	Guidance	Disclosure included in SDCERS CAFR	Deficiency
FY 2003	5. When a defined benefit pension plan administers a postemployment healthcare plan, the financial report of the defined benefit pension plan should include....The notes also should include a brief description of the eligibility requirements for postemployment healthcare benefits and the required contribution rate(s) for employer(s). [GASB 26, paragraph 7]	"Reserve for Retiree Health Insurance - Funds set aside in a 401(h) Trust to provide health benefits to Health Eligible and Non-Health Eligible Retirees." [Footnote 7. Retirement System Trust Fund - Reserves]	The SDCERS CAFR failed to include a brief description of the eligibility requirements for postemployment healthcare and the required contribution rates of the City.
FY 2003	6. Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.) [GASB 25, paragraph 40.b]	The Gleason litigation is not disclosed in the SDCERS CAFR. [Footnote 8. Legal Action & Footnote 9. Subsequent Event Disclosure]	The SDCERS CAFR failed to disclose the Gleason litigation and its potential affect on the amounts reported for the pension plan.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<i>7/2/96, \$73,500,000 - 1996-1997 Tax Anticipation Notes, Series A [Dated 6/5/96]</i>	
1.	MP-1 was approved on July 2, 1996 by the City Council, which is the date of issuance for this offering. The offering does not disclose the key components of the MP-1 agreement.
2.	The notes state that Meet and Confer discussions were ongoing. Because MP-1 was approved by the date of this issuance, Meet and Confer discussions were completed.
3.	Excerpts from the June 30, 1995 City CAFR were included with this offering (Appendix B). A review of the sufficiency of the June 30, 1995 City CAFR was not performed.
<i>7/15/96, \$33,430,000 - Balboa Park and Mission Bay Capital Improvements Project [Dated 7/16/96]</i>	
1.	MP-1 was approved on July 2, 1996 by the City Council, which is prior to the issuance of this offering. The offering does not disclose the key components of the MP-1 agreement.
2.	The notes state that Meet and Confer discussions were ongoing. Because MP-1 was approved by the date of this issuance, Meet and Confer discussions were completed.
3.	Excerpts from the June 30, 1995 City CAFR were included with this offering (Appendix F). A review of the sufficiency of the June 30, 1995 City CAFR was not performed.
<i>8/1/96, \$11,720,000 - Balboa Park and Mission Bay Park Capital Improvements Program [Dated 7/31/96]</i>	
1.	MP-1 was approved on July 2, 1996 by the City Council, which is prior to the issuance of this offering. The offering does not disclose the key components of the MP-1 agreement.
2.	The notes state that Meet and Confer discussions were ongoing. Because MP-1 was approved by the date of this issuance, Meet and Confer discussions were completed.
3.	Excerpts from the June 30, 1995 City CAFR were included with this offering (Appendix F). A review of the sufficiency of the June 30, 1995 City CAFR was not performed.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<u>12/1/96, \$68,425,000 - Taxable Lease Revenue Bonds [Dated 12/12/96]</u>	
1.	MP-1 was approved on July 2, 1996 by the City Council, which is prior to the issuance of this offering. The offering does not disclose the key components of the MP-1 agreement.
2.	The notes state that Meet and Confer discussions were ongoing. Because MP-1 was approved by the date of this issuance, Meet and Confer discussions were completed.
3.	Excerpts from the June 30, 1996 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 1996 CAFR also apply to this bond offering.
<u>2/1/97, \$250,000,000 - Sewer Revenue Bonds [Dated 2/26/1997]</u>	
1.	MP-1 was approved on July 2, 1996 by the City Council, which is prior to the issuance of this offering. The offering does not disclose the key components of the MP-1 agreement.
2.	The notes state that Meet and Confer discussions were ongoing. Because MP-1 was approved by the date of this issuance, Meet and Confer discussions were completed.
3.	The notes under the <i>Wastewater System Regulatory Requirements</i> section included the following misleading statement, "The rate structure has been reviewed by the State Board and no grant funds or costs under grand funded programs have been disallowed based on the nature of the rate structures." At this time, the City was not compliant with certain grant and loan covenants.
4.	Excerpts from the June 30, 1996 Sewer Utility financial statements were included with this offering (Appendix A). The notes to the financial statements contain the same information on the pension plan as the City's June 30, 1996 CAFR. Therefore, the June 30, 1996 Sewer Utility financial statements contain the same disclosure deficiencies as the City's June 30, 1996 CAFR for this note disclosure.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<u>7/2/97, \$82,000,000 - 1997-1998 Tax Anticipation Notes [Dated 6/5/97]</u>	
1.	MP-1 was approved on July 2, 1996 by the City Council, which is prior to the issuance of this offering. The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the Net Pension Obligation ("NPO") created by the City contributing less than the Actuarially Required Contribution ("ARC").
3.	Excerpts from the June 30, 1996 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 1996 CAFR also apply to this bond offering.
<u>7/1/98, \$59,465,000 - Special Tax Refunding Bonds [Dated 6/21/98]</u>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	City CAFR excerpts were not included with this bond offering.
<u>7/1/98, \$88,500,000 - 1998-1999 Tax Anticipation Notes [Dated 6/3/98]</u>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	Excerpts from the June 30, 1997 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 1997 CAFR also apply to this bond offering.
5.	Although listed on the index at the beginning of Appendix B, Required Supplementary Information was not included.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<i>8/1/98, \$385,000,000 - Water Utility Fund [Dated 8/4/98]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The Corbett lawsuit was filed in July 1998, but the pending litigation was not disclosed in the bond offering.
5.	Excerpts from the June 30, 1997 Water Utility financial statements were included with this offering (Appendix F). The notes to the financial statements contain the same information on the pension plan and post retirement healthcare as the City's June 30, 1997 CAFR. Therefore, the June 30, 1997 Water Utility financial statements contain the same disclosure deficiencies as the City's June 30, 1997 CAFR for these two note disclosures.
<i>9/1/98, \$205,000,000 - Lease Revenue Bonds [Dated 9/1/98]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The Corbett lawsuit was filed in July 1998, but the pending litigation was not disclosed in the offering.
5.	Excerpts from the June 30, 1997 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 1997 CAFR also apply to this bond offering.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<u>3/1/99, \$315,410,000 - Sewer Revenue Bonds [Dated 3/2/99]</u>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The Corbett lawsuit was filed in July 1998, but the pending litigation was not disclosed in the offering.
5.	Excerpts from the June 30, 1998 Sewer Utility financial statements were included with this offering (Appendix A). The notes to the financial statements contain the same information on the pension plan and post retirement healthcare as the City's June 30, 1998 CAFR. Therefore, the June 30, 1998 Sewer Utility financial statements contain the same disclosure deficiencies as the City's June 30, 1998 CAFR for these two note disclosures.
6.	The notes under the <i>Wastewater System Regulatory Requirements</i> section included the following misleading statement, "The City's rate structure has been reviewed by the State Board and no grant funds or costs under grand funded programs have been disallowed based on the nature of the rate structures...The City believes that it is in compliance with all federal and state laws relating to the Wastewater System." At this time, the City was not compliant with certain grant and loan covenants.
<u>7/1/99, \$99,500,000 - 1999-2000 Tax Anticipation Notes [Dated 6/10/99]</u>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The Corbett lawsuit was filed in July 1998, but the pending litigation was not disclosed in the offering.
5.	Excerpts from the June 30, 1998 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 1998 CAFR also apply to this bond offering.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<i>7/3/00, \$53,000,000 - 2000-01 Tax Anticipation Notes [Dated 6/8/00]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The Corbett Settlement was finalized in May of 2000. The bond offering does not disclose the Corbett Settlement and its financial impact on the City.
5.	Excerpts from the June 30, 1999 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 1999 CAFR also apply to this bond offering.
<i>9/26/00, \$24,000,000 - 2000-01 Tax Anticipation Notes [Dated 9/19/00]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The Corbett Settlement was finalized in May of 2000. The bond offering does not disclose the Corbett Settlement and its financial impact on the City.
5.	Excerpts from the June 30, 1999 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 1999 CAFR also apply to this bond offering.
<i>10/30/00, \$56,020,000 - Special Tax Bonds [Dated 10/18/00]</i>	
1.	The bond offering did not include disclosures related to the pension plan.
2.	The Corbett Settlement was finalized in May of 2000. The bond offering does not disclose the Corbett Settlement and its financial impact on the City.
3.	The bond offering did not include excerpts from a City CAFR.

City of San Diego ("City") Bond Offerings

General

The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.

10/30/00, \$4,350,000 - Special Tax Bonds [Dated 10/18/00]

1. The bond offering did not include disclosures related to the pension plan.
2. The Corbett Settlement was finalized in May of 2000. The bond offering does not disclose the Corbett Settlement and its financial impact on the City.
3. The bond offering did not include excerpts from a City CAFR.

7/2/01, \$73,000,000 - 2001-02 Tax Anticipation Notes [Dated 6/6/01]

1. The offering does not disclose the key components of the MP-1 agreement.
2. The pension plan note does not report the NPO created by the City contributing less than the ARC.
3. The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4. The Corbett Settlement was finalized in May of 2000. The bond offering does not disclose the Corbett Settlement and its financial impact on the City.
5. The financial statements included in the June 30, 2000 City CAFR were attached to the offering. Although listed on the index at the beginning of Appendix B, the notes to the financial statement were not included.
6. Although listed on the index at the beginning of Appendix B, Required Supplementary Information was not included.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<i>2/14/02, \$169,685,000 - Lease Revenue Bonds [Dated 2/14/02]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The notes state that the last actuarial valuation report was dated 6/30/00 and indicated the funding ratio was 97.3%. However, the 6/30/01 valuation report, which indicated the funding ratio was 89.9%, is dated 2/12/02 and was not included in the offering.
5.	Excerpts from the June 30, 2001 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 2001 CAFR also apply to this bond offering.
6.	The pension plan note does not disclose the potential breach of the 82.3% trigger and the potential financial impact this breach would have on the City.
<i>6/15/02, \$25,070,000 - Lease Revenue Bonds [Dated 6/12/02]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The notes state that the last actuarial valuation report was dated 6/30/00 and indicated the funding ratio was 97.3%. However, the 6/30/01 valuation report, which indicated the funding ratio was 89.9%, is dated 2/12/02 and was not included in the offering.
5.	Excerpts from the June 30, 2001 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 2001 CAFR also apply to this bond offering.
6.	The pension plan note does not disclose the potential breach of the 82.3% trigger and the potential financial impact this breach would have on the City.
7.	Although listed on the index at the beginning of Appendix B, Required Supplementary Information was not included.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
7/1/02, \$93,200,000 - 2002-03 Tax Anticipation Notes [Dated 6/4/02]	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The notes state that the last actuarial valuation report was dated 6/30/00 and indicated the funding ratio was 97.3%. However, the 6/30/01 valuation report, which indicated the funding ratio was 89.9%, is dated 2/12/02 and was not included in the offering.
5.	The notes include values for the UAAL at both 6/30/00 and 6/30/01. The \$284 million UAAL as of 6/30/01 is significantly higher than the \$69 million UAAL as of 6/30/00 UAAL. The notes state that the assumptions and calculations supporting the 6/30/01 valuation had not yet been approved by the SDCERS Board and the valuation was subject to change.
6.	Excerpts from the June 30, 2001 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 2001 CAFR also apply to this bond offering.
7.	The pension plan note does not disclose the potential breach of the 82.3% trigger and the potential financial impact this breach would have on the City.
8.	Although listed on the index at the beginning of Appendix B, Required Supplementary Information was not included.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<i>10/8/02, \$286,945,000 - Water Revenue Bonds [Dated 10/8/02]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	Excerpts from the June 30, 2001 Water Utility financial statements were included with this offering (Appendix F). The notes to the financial statements contain the same information on the pension plan and post retirement healthcare as the City's June 30, 2001 CAFR. Therefore, the June 30, 2001 Water Utility financial statements contain the same disclosure deficiencies as the City's June 30, 2001 CAFR for these two note disclosures.
5.	The pension plan note does not disclose the potential breach of the 82.3% trigger and the potential financial impact this breach would have on the City.
<i>4/30/03, \$15,255,000 - Lease Revenue Refunding Bonds [Dated 4/30/03]</i>	
1.	The offering does not disclose the key components of the MP-1 agreement. MP-2 was approved on November 18, 2002. The offering does not disclose the changes to the pension plan as a result of the approval of MP-2.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The pension plan note states that the UAAL increased primarily due to lower than anticipated investment returns. The note does not indicate that other contributing factors of the increase in the UAAL were benefit increases and City contributions at less than ARC.
5.	The pension plan note does not disclose the breach of the 82.3% trigger and the financial impact on the City.
6.	Excerpts from the June 30, 2002 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 2002 CAFR also apply to this bond offering.
7.	Although listed at the beginning of Appendix B, Required Supplementary Information was not included.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
<u>5/29/03, \$17,425,000 - Balboa Park/Mission Bay Park Refunding [Dated 5/29/03]</u>	
1.	The offering does not disclose the key components of the MP-1 agreement. MP-2 was approved on November 18, 2002. The offering does not disclose the changes to the pension plan as a result of the approval of MP-2.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The pension plan note states that the UAAL increased primarily due to lower than anticipated investment returns. The note does not indicate that other contributing factors of the increase in the UAAL were benefit increases and City contributions at less than ARC.
5.	The pension plan note does not disclose the breach of the 82.3% trigger and the financial impact on the City.
6.	Excerpts from the June 30, 2002 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 2002 CAFR also apply to this bond offering.
<u>7/1/2003, \$110,900,000 - 2003-2004 Tax Anticipation Notes [Dated 6/16/03]</u>	
1.	The offering does not disclose the key components of the MP-1 agreement. MP-2 was approved on November 18, 2002. The offering does not disclose the changes to the pension plan as a result of the approval of MP-2.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The pension plan note states that the UAAL increased primarily due to lower than anticipated investment returns. The note does not indicate that other contributing factors of the increase in the UAAL were benefit increases and City contributions at less than ARC.
5.	The pension plan note does not disclose the breach of the 82.3% trigger and the financial impact on the City.
6.	Excerpts from the June 30, 2002 City CAFR were included with this offering (Appendix B). Disclosure deficiencies that exist in the 2002 CAFR also apply to this bond offering.

City of San Diego ("City") Bond Offerings

<u>General</u>	
	The Official Statements and Appendices related to City bond offerings contained notes describing the Pension Plan and excerpts from the most recently issued CAFR (or financial statements in the case of Sewer Revenue and Water Utility bonds). The notes included a brief description of the pension plan and the following information: annual valuation date, funded ratio, actuarial value of assets, total actuarial accrued liabilities, and the UAAL (for the most recently issued actuarial valuation). Additionally, the offerings stated, "State legislation requires the City to contribute to CERS at rates determined by actuarial valuations." The offerings did not indicate that, due to Manager's Proposal 1 ("MP-1") and Manager's Proposal 2 ("MP-2"), the City was contributing less than the actuarially required rate. Disclosure deficiencies identified in the offerings are listed below.
8/26/2003, \$505,550,000 - Subordinated Sewer Revenue Bonds POS [Not Dated]	
1.	The offering does not disclose the key components of the MP-1 agreement. MP-2 was approved on November 18, 2002. The offering does not disclose the changes to the pension plan as a result of the approval of MP-2.
2.	The pension plan note does not report the NPO created by the City contributing less than the ARC.
3.	The pension plan note states that the UAAL is amortized over a 30-year period. However, beginning in 1998, the UAAL was amortized over a 40-year period for purposes of reporting an NPO.
4.	The pension plan note states that the UAAL increased primarily due to lower than anticipated investment returns. The note does not indicate that other contributing factors of the increase in the UAAL were benefit increases and City contributions at less than ARC.
5.	The pension plan note does not disclose the breach of the 82.3% trigger and the financial impact on the City.
6.	Excerpts from the June 30, 2002 Wastewater Utility financial statements were included with this offering (Appendix A). The notes to the financial statements contain the same information on the pension plan and post retirement healthcare as the City's June 30, 2002 CAFR. Therefore, the June 30, 2002 Wastewater Utility financial statements contain the same disclosure deficiencies as the City's June 30, 2002 CAFR for these two note disclosures. The pension plan note included the statement, "The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO." This statement was outdated and was already removed from the City's June 30, 2002 CAFR.
7.	The notes under the <i>Wastewater System Regulatory Requirements</i> section included the following misleading statement, "The City's rate structure has been reviewed by the State Board and no grant funds or costs under grand funded programs have been disallowed based on the nature of the rate structures...The City believes that it is in compliance with all federal and state laws relating to the Wastewater System." At this time, the City was not compliant with certain grant and loan covenants.

Appendix M

Appendix M

Report of the Audit Committee of the City of San Diego

Proposed Remediation Measures

In developing this Remediation Plan, the Audit Committee reviewed recommendations made in previous reports and correspondence, made inquiry of interviewees with relevant experience and representatives of the City and SDCERS for suggested recommendations, and considered usual and best practices in financial reporting, management and governance.

1. REORGANIZATION OF FINANCIAL REPORTING:

- **THE CHIEF FINANCIAL OFFICER OF THE CITY (“CFO”)**
- **CITY COMPTROLLER**
- **DIRECTOR OF FINANCIAL REPORTING**
- **DIRECTOR OF PLANNING, BUDGET AND FINANCIAL ANALYSIS (“BUDGET DIRECTOR”)**
- **CITY TREASURER**

The Mayor has established the position of CFO for the City. The Audit Committee commends and strongly supports him for taking that action. Ultimately, someone within City government must be accountable for the accuracy and credibility of the City’s financial reporting. We believe that should be the CFO, along with the Mayor as the Chief Executive Officer of the City.

The Audit Committee found the City’s financial reporting structure deficient, primarily because it lacks clear lines of responsibility, and systems to generate the financial data in an efficient and reliable manner. The engine for this system is also sadly lacking: qualified employees with current training in the preparation of financial statements that meet legal standards. This, in turn, has contributed to major breakdowns in internal controls, which are necessary for any organization if it is to be a responsible participant in the U.S. capital markets.

To address this urgent need, the City should redefine with reasonable clarity areas of responsibility and lines of supervisory authority among management and departments for (i) accounting and financial reporting, (ii) treasury and (iii) planning, budgeting and financial analysis. Under the Remediation Plan, the auditing and oversight functions will be independent of the other departments responsible for financial reporting.

The CFO should have primary responsibility for, and have as direct reports, personnel with functional authority over, accounting and financial analysis, treasury, planning and budgeting and financial reporting. This should include authority over those responsible for all information systems required by these functions. The CFO should have significant experience with governmental operations, including accounting, financial reporting and

applicable disclosure standards, rules and regulations. The CFO should in particular have experience in the preparation of a CAFR in accordance with governmental accounting standards and offering statements for a municipal issuer.

The Comptroller should report to the CFO and be responsible for accounting and financial reporting, including preparation of the City's CAFR. The Comptroller should have significant experience in governmental accounting, including in the preparation of CAFRs in accordance with GASB and other applicable accounting and financial reporting standards, rules and regulations. The Comptroller should in particular be familiar with federal rules and regulations applicable to the receipt of federal assistance and the issuance of public securities. The Comptroller should also be competent to design, implement and operate an effective system of internal controls over financial reporting and disclosure. The Comptroller should have, as a direct report, a Director of Financial Reporting responsible for the preparation of the City's periodic financial statements. Such person should also have experience in the preparation of the CAFRs in accordance with GASB and other applicable accounting standards, rules and regulations.

The Budget Director should report directly to the CFO and have principal responsibility for preparing an annual budget, a monthly budget with comparisons of budget to actual results year-to-date, analyses of variances, and a quarterly report to the City Council and public setting forth budgeted versus actual results. The Budget Director's Office should serve as a resource for financial analysis, planning assistance, and services to other City departments and agencies.

The City Treasurer should report to the CFO and have principal responsibility for all treasury functions for the City. The Office of the Treasurer and the duties assigned to that Office shall be as otherwise described in the City Charter.

2. FINANCIAL REPORTING AND ACCOUNTING-RELATED TRAINING

It is impossible for accountants to remain current with developments in accounting and financial reporting standards, rules, and regulations without ongoing training. In the accounting profession, 40 hours per year of continuing education is the accepted norm. Obviously, the city has not made the investment necessary to maintain the competencies of its staff, which is essential for credible financing management, external and internal financial reporting, and reliable public disclosure. The Audit Committee understands this lack of investment continues with the budget for the fiscal year ending 2007.

To address this urgent shortcoming, we recommend as part of this Remediation Plan the CFO, in consultation with two newly created entities – the Auditor General and the Audit Committee – assume oversight authority for an effective annual training program for the financial reporting staff who report to them.

The same can be said of training for employees carrying out programs funded by grants and loans. We recommend tailored training for all individuals who are currently employed by the City who were members of the Metropolitan Wastewater Department at any time from 1995 to 2004, the period of the City's noncompliance with its SWRCB grant and loan covenants

and its violation of the Federal Clean Water Act. Many of these employees had or should have had knowledge of the City's noncompliance and the possible ramifications of such noncompliance, and failed to take sufficient corrective steps. The Metropolitan Wastewater Department employees should receive special training directed at (i) ensuring the City complies with all contractual requirements, laws and regulations, and (ii) reporting any noncompliance to the appropriate individuals or entities.

3. INFORMATION TECHNOLOGY

As stated in the Auditor & Comptroller's 2006 Report on Internal Controls, the current information technology system is antiquated and it is difficult to extract data from the current financial systems.

By no later than June 30, 2007, the CFO should evaluate the information technology needs of the City, including benchmarking of existing systems against available systems suitable for responsible management of the City's finances, the preparation of timely and accurate CAFRs and budgets. Within 18 months, the City shall have selected a new information system and taken all steps necessary for the system's implementation. Within 36 months, the City's new financial information system shall have been fully tested to ensure effectiveness and efficiency and will be implemented. As part of the process of upgrading its information technology, the City should also update its chart of accounts, including elimination of unnecessary accounts and funds.

4. INTERNAL CONTROL TESTING AND INDEPENDENT VERIFICATION

Correcting the serious deficiencies in the City's accounting internal controls is a process that will require a sustained effort. The City would be well advised to devote the next year to correcting the deficiencies and report to the public on its progress. In the following year, the City should retain an independent auditor to perform an audit of its internal controls and issue a report thereon. To reduce the cost of this process, that audit can be accomplished while the auditors are performing the annual audit of the City's financial statements. After the initial independent assessment of internal controls in 2008, the City can determine the frequency of such audits in the future. The expense of periodic audits of internal controls, in the view of the Audit Committee, pales by comparison to the enormous direct and indirect costs to the City from the deficiencies in controls that exist today.

Accordingly, no later than June 30, 2007, the CFO shall have tested and remediated the internal control weaknesses identified in the Auditor and Comptroller's 2006 Report on Internal Controls, and in the management letters of the City's outside auditors, KPMG and Macias Gini & Company LLP. The CFO should submit to the Mayor and City Council, and disseminate to the public, a report that describes testing that has been completed, remediation undertaken, any internal control weaknesses not yet remediated and additional material weaknesses identified.

A reputable independent auditing firm shall be retained by the City's new Audit Committee, which should, in connection with the annual audit of the financial statements of the City for the fiscal year ending June 30, 2008, conduct an audit of the City's internal controls, in

accordance with the applicable auditing standards, and issue a report thereon. Such report should, among other things, identify any material weaknesses and be included as part of the City's CAFR.

5. ANNUAL MANAGEMENT REPORT BY MAYOR AND CFO

Ultimately, the accuracy and completeness of the City's CAFRs and offering documents, and the systems and controls necessary for them, are the responsibility of the Mayor and the CFO. Accountability for these important tasks properly rests with them. Thus, the Audit Committee recommends as follows.

The Mayor and the CFO shall annually include in the City's CAFR a signed management report on the financial statements and disclosures which shall include: (i) a statement of the City's responsibility for establishing and maintaining an effective system of internal control over financial reporting and disclosures; (ii) a statement setting forth the City's assessment of the effectiveness of the internal controls as of the fiscal year end, as well as identifying any material weaknesses in internal controls; (iii) a statement that based on their knowledge, the CAFR does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the CAFR, in light of the statements made and circumstances under which they are made, not misleading with respect to the period covered; and (iv) a statement that this financial statement and other information included in the CAFR fairly presents in all material respects the net assets and activities of the City for the period presented.

6. ANNUAL MANAGEMENT REPORT BY SUBORDINATE ACCOUNTING OFFICERS

Certain component units of the City, such as the Redevelopment Agency and SDCERS, issue stand-alone financial statements, and have their results included as part of the consolidated totals for the City. The SDCERS financial statements frequently did not comply with GAAP, and, as noted in the Auditor & Comptroller's 2006 Report on Internal Controls, adjustments in the City CAFR were necessary because of errors in the accounts of the Redevelopment Agency.

Therefore, we recommend the chief executive officer and principal accounting officer of each such component unit of the City include annually with its financial statements a signed management report substantially in the form described above for the Mayor and CFO.

7. ENSURING COMPLETENESS OF DISCLOSURES: DISCLOSURE PRACTICES WORKING GROUP ("DPWG")

In response to recommendations rendered by V&E, the City formally installed the DPWG, comprised of the City Attorney, certain representatives of the City Attorney's office, the Auditor & Comptroller, the City Treasurer, the Deputy City Manager responsible for the financial management functions of the City, and the City's outside disclosure counsel. The DPWG is responsible for the design and implementation of a program that ensures the City's compliance with disclosure controls and procedures (through an annual evaluation), oversight at mandatory disclosure training of City staff, and review of all City offering documents prepared as part of the City's public disclosure. As an element of this Remediation Plan we endorse the continuation of the DPWG, though we recommend a

change in its composition. Given the enormous responsibility of the CFO to ensure the accuracy of the City's financial statements, the CFO should be a member of the DPWG and serve as its chair. As reconstituted, with the DPWG reporting to the City's new Audit Committee, as we also recommend, the DPWG can render meaningful assistance to the City (and particularly to the Mayor and CFO) in discharging their obligations to consider the materiality of information and to determine the City's disclosure responsibilities, consistent with best practices observed in the private sector.

8. INDEPENDENT AUDITOR GENERAL

Currently, the functions of accounting and financial reporting are combined with the function of internal auditing in the Office of the City Auditor & Comptroller; in substance, the auditor audits his own work. Such a structure lacks the requisite level of independence widely viewed as essential for a sound financial reporting system.

To address the deficiencies that have been identified with respect to the independence and oversight of the internal and external financial reporting process, the Audit Committee is proposing the creation of an independent internal auditing function, and improved oversight of both the internal and external auditing process. This should also enhance the performance and credibility of these functions, as well as improve communication among the personnel involved. Our Remediation Plan assigns responsibility to the executive branch to make key appointments, and to the legislative branch to approve the appointments and to serve in an oversight role in the process. The Remediation Plan also depends upon the participation of citizens to ensure the independence of the oversight process, a requirement for any effective auditing function. Our recommendations follow.

The City should create a new position of Auditor General, with responsibility for internal audits of the City's: (1) internal controls; (2) financial accounting, reporting, and disclosure; (3) operations; (4) fraud, waste, and abuse. The Auditor General shall be nominated by the Mayor and appointed upon the consent of a majority of the City Council. The Auditor General should have experience with government accounting standards, government generally accepted auditing standards, preparation of government annual financial statements and operational audits. The Auditor General should have a professional certification such as a Certified Public Accountant or Certified Fraud Examiner.

The Auditor General should report to an Audit Committee (defined below) no less than on a quarterly basis and periodically to the City Council. In addition, the Auditor General should submit annually to the City Council a public report of his activities. In order to protect against budget cuts that may unduly constrain the independent auditing process, the City's Audit Committee should approve the annual compensation of the Auditor General and the annual budget for the Auditor General's staff. The Auditor General shall serve a term of 10 years, and can be removed from office for cause by the Audit Committee or upon an affirmative vote of three-quarters of the City Council.

9. AUDIT COMMITTEE; ENSURING PROTECTION FOR WHISTLEBLOWERS

In order to ensure objective oversight of the City's financial reporting process, the City should establish a three-member Audit Committee, with two members from the public and one member of the City Council. The two public members of the Audit Committee should have expertise in accounting, auditing and financial reporting and be capable of critical reading of financial statements. The Mayor should appoint the two members of the Audit Committee from the public, and these appointments should be confirmed by the City Council. The Audit Committee should establish a written charter that is made available to the public. The charter should include a provision requiring the committee to perform an annual self-evaluation.

Consistent with the established practice for other entities gaining access to money from the investing public, the City's independent auditors should be retained by, report to, and take direction from, the Audit Committee. We would expect the CFO and Auditor General, as supporting staff to the Audit Committee, would assist in this process. However, the final decision would be that of the Audit Committee. The City's Financial Reporting Oversight Board should be eliminated as redundant to the Audit Committee.

The Audit Committee should meet quarterly, or more often if necessary, with the City's independent auditors, the City's Auditor General and the CFO. The Mayor, CFO, City Attorney and City Council should have the authority make requests of the Audit Committee and Auditor General to perform internal audits of material matters they reasonably believe to be warranted. Private sector members of the Audit Committee shall be compensated in an amount set by the Mayor and approved by the City Council.

To discourage any improper influence of the professionals who serve as "gatekeepers" to the public financial reporting process of the City, the Municipal Code should be amended to add criminal penalties for such conduct. It should be unlawful for any elected official, or employee of the City, or anyone acting under their direction, to take any action to corruptly influence, coerce, manipulate or mislead any independent certified public accountant engaged in the performance of an audit of the financial statements of the City or its component units, or outside legal counsel performing services for the City in connection with an offering statement of the City, or any actuary performing an actuarial valuation in connection with the preparation of the City's or SDCERS's CAFRs, or employees of a bond rating agency performing a credit rating of the City's bonds.

The new Audit Committee should have responsibility for the establishment and monitoring of effective policies and procedures for dealing with "whistleblower" complaints, including an internal hotline. In that regard, the Audit Committee should receive a report of each such complaint and, in consultation with the Auditor General, determine the appropriate course of action. This Auditor General shall report to the Audit Committee the results of any investigation and disposition of such complaints. Documents reflecting such an investigation should be preserved, in accordance with procedures established by the new Audit Committee.

10. SELECTION AND RETENTION OF AUDITORS

It is critical the City obtain a high quality independent audit of its annual financial statements. As noted previously, the creation of an audit committee should enhance the independence of the external auditor. In addition, the City should modify its procurement practices for obtaining the services of outside auditors. The General Accounting Office has noted that, in addition to cost, other factors that should be considered when selecting an independent auditor include the “appropriate professional qualifications and technical abilities; and the results of the bidder’s peer reviews.” Thus, to ensure that such non-cost factors are given proper consideration in the selection process we recommend that a procurement decision involving the selection of an auditor be accompanied by a statement of the basis for the selection, including the weight accorded costs and any other factors, and that such statement be maintained as part of the records of the new Audit Committee.

Further, to address the perception that long-term engagements erode auditor independence, and that incumbency provides an unearned advantage in the selection process, the new Audit Committee and the City should enter into five year contracts with its independent auditors. After the initial five year term, that term could be extended for another five years provided (i) the audit firm rotates the audit partner responsible for the engagement and (ii) the auditor has received an unqualified peer review report on its audits. The audit could also be rebid at the end of five years, and an auditor should not be permitted to serve for more than two consecutive five year terms.

Finally, to level the playing field among audit firms interested in serving the City, and ensure a focus on audit quality, we recommend that bidders, under certain circumstances, be disqualified. First, an audit firm that, directly or indirectly, through any of its principals or employees, has made a campaign contribution to an elected official of the City within 2 years of the selection of the auditor should not be considered for an engagement. We likewise recommend that any audit firm that performs other, non-audit services for the City be similarly disqualified. The Audit Committee should be free to adopt policies that impose more stringent selection and retention standards.

11. PUBLIC INFORMATION REGARDING LONG TERM LIABILITIES

As detailed in this Report, the sheer magnitude of the City’s presently known financial liabilities for such costs as pensions, retiree healthcare and deferred maintenance is staggering. Perhaps even more disturbing has been the lack of public exposure and understanding of these issues and their long term implications for the City. For example, the Blue Ribbon Committee identified, in addition to pension funding, two other issues --- retiree healthcare and deferred maintenance --- that if not addressed will almost certainly become the next crisis to befall the City. The Blue Ribbon Committee estimated that the City had not performed its maintenance obligations in an amount exceeding \$300 million. This will have significant consequences as the City simultaneously grapples with a retirement system that is underfunded by as much as \$1.4 billion and a healthcare obligation to present and former employees of approximately \$1 billion, according to recent estimates. These looming obligations require the City to develop long term solutions now. If the public is expected to

make sacrifices --- and they most surely will ---then the public is entitled to know what is coming.

Therefore, we recommend the City, as part of its annual CAFR, report (in a separate tabular form) the City's best estimate of material payments the City will be required to make for each of the next five years, and in the aggregate thereafter, as a result of (i) contractual commitments or (ii) other commitments the City reasonably intends to fulfill. These payments should include those for (i) expected contributions by the City to the pension plan for retiree pension benefits; (ii) expected payments the City will make for retiree healthcare benefits; (iii) capital expenditures resulting from contractual commitments; (iv) material contractual commitments in excess of one year; (v) deferred maintenance to the extent quantified; and (vi) debt and lease obligations. In the end, the presentation of the information in this form should provide citizens and investors with a credible, transparent picture of the demands on the future cash flows of the City.

12. BOARD COMPOSITION

The Audit Committee believes the City of San Diego Pension Reform Committee's recommendation to improve the governance of SDCERS by changing the size and composition of its Board was substantially correct. The composition of the Board should be comprised of qualified professionals with experience in the management of investment funds, as well as an understanding of and commitment to the fiduciary responsibilities owed the System's retirees and employees. At the same time, it must be recognized that employees and retirees, whose contributions helped build the System's assets, have a direct financial interest in the system's welfare unlike any other, and that interest is deserving of respect. Accordingly, we believe the Pension Reform Committee's recommendation to increase the number of outside independent professionals on the Board is an improvement, but further improvements are necessary.

The composition of the Board of Administration of SDCERS should consist of nine members, including five members who shall be appointed by the Mayor and confirmed by the City Council. We believe a nine-member Board is small enough to encourage collaboration and collegial exchange of views, yet sufficient to oversee the retirement plan and the work performed by the approximately 60 employees of SDCERS. Mayoral appointees shall have the qualifications otherwise specified in the City Charter. The remaining four members should consist of: (i) two members elected from police safety members, fire safety members, or general members of the retirement system, selected in accordance with Charter Section 144(d); and (ii) two retired members of the retirement system, selected in accordance with Charter Section 144(e).

Given its precarious funding and rancorous history, the process of identifying and evaluating prospective SDCERS Board members should be undertaken with greater care. In connection with SDCERS Board vacancies in 2005, the Audit Committee observed that applicants for appointment were considered by the prior administration on the basis of incomplete, unsigned written forms and inadequate background investigations. In more than one instance, a routine background check performed at the Audit Committee's request revealed that the applicant had been associated with an entity that had been the subject of a regulatory

investigation. We therefore recommend that, prior to any appointment being made to the SDCERS Board, each potential appointee be required to complete a written application listing qualifications for the position and any factors that may impact on that decision, and that the applicant be required to affirm the accuracy of the application. A background check of the applicants to be nominated should be done by the appropriate City department. The applications should also be shared with the Business and Governance Committee of the SDCERS board.

13. BOARD COMMITTEES

The Board of Administration should have standing committees to address board governance, compensation and evaluation of the Retirement Administrator, investments, and an audit and compliance committee. We understand that the SDCERS Board has already consolidated its former Business and Procedures Committee with its Rules Committee to form a single Business and Governance Committee, and has reconstituted its Audit Committee so that three of its five members will be formally experienced non-Board member citizens of San Diego, one of whom will serve as chair.

The Board should adopt and publish a formal charter for each of these committees, which should be updated no less frequently than every three years. The charters should ensure the committees perform a board and committee evaluation process on an annual basis. The annual SDCERS CAFR should include a report from each of these committees on significant activities during the year.

14. SDCERS CAFR

The Retirement Administrator and CFO of SDCERS should annually include in the SDCERS CAFR a signed management report on the financial statements which should include: (i) a statement of SDCERS's responsibility for establishing and maintaining an effective system of internal control over financial reporting and disclosures; (ii) a statement setting forth SDCERS's assessment of the effectiveness of the internal controls as of the Plan's fiscal year end as well as identification of any material weaknesses in internal controls; (iii) a statement that, based on their knowledge, the CAFR does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the CAFR, in light of the statements made and circumstances under which they are made, not misleading with respect to the period covered; (iv) a statement that the staff of SDCERS and its Board of Administration are responsible for the adoption of key assumptions used by the SDCERS actuary in the valuation of the system's assets and liabilities; and (v) a statement that the financial statements and other information included in the SDCERS CAFR fairly present in all material respects the net assets and changes in net assets of the Plan for period presented.

15. SDCERS FINANCIAL AND ACCOUNTING COMPETENCY

In the past, SDCERS has lacked sufficient resources to perform its accounting: the SDCERS accounting function has been a mixed responsibility of city personnel and SDCERS. We understand that SDCERS has recently decided to create a full-time Internal Auditor staff position that will report directly to the Audit Committee; a Compliance Officer staff position

reporting directly to the SDCERS Board; and the Financial Reporting and Administration Division has been expanded with the addition of four accountants, two of whom so far have significant experience, and a management analyst with advanced training experience. Given SDCERS fiduciary responsibilities, which may conflict with those of the City, we concur with actions being taken by the Retirement Administrator to establish a financial reporting function within SDCERS.

Competent management of the system's investments necessarily depends upon the services of skilled investment consultants and fund managers, whose advice should not only be professionally competent, but also free of extraneous influence or conflict of interest, whether actual or in appearance. We learned in the course of our investigation that a SDCERS Board member had sought information from Callan, SDCERS's principal investment consultant, regarding Callan's financial relations with a number of fund managers that had been recommended by Callan and had been managing investments for SDCERS. Taking the position that such information was confidential, Callan supplied SDCERS with only general information indicating that many of the funds managing SDCERS's investments had been or were engaged in business dealings with Callan, though the specific dollar value and the precise nature of the business dealings was withheld. The refusal of Callan to disclose fully its financial dealings with managers that it recommends undermines the ability of the SDCERS Board to evaluate competently the advice it is receiving from Callan as part of its fiduciary obligation to safeguard the system's assets. Such refusal should never again be countenanced.

We recommend the chief accounting officers of SDCERS should have adequate prior experience with investment operations and financial reporting and disclosures. This experience should include a working knowledge of applicable governmental and investment accounting, financial reporting and disclosure standards, rules and regulations, as well as experience with the preparation of the financial statements, footnotes and disclosures required in a CAFR, in accordance with GASB and other applicable standards. The individual must be capable of taking primary responsibility for the preparation of the SDCERS CAFR.

The Audit Committee recommends SDCERS require its investment consultants and fund managers to complete annually a Vendor Disclosure Form that calls for disclosure of all information regarding remuneration paid or received related to funds managed for SDCERS, as well as its business dealings with the SDCERS investment consultant. In addition, investment consultants and managers should be advised that a failure or delay in filing the annual disclosure will result in a penalty, including termination of services.

16. CONTRIBUTIONS BY THE CITY

The Pension Reform Committee identified a number of reasons for the underfunding of the pension benefits, and made a number of recommendations to address this shortfall. The Committee's report and recommendations contributed significantly to the public's understanding of these issues. However, key to all of its recommendations is that the City must balance its sources of revenues and inflows of cash, with the costs it incurs and cash outflows. As with any other cost, this is true for the pension benefits it provides to its

employees in return for the services they render. Instead, the City, until recently, has refused to actuarially fund the retirement benefits it has granted. In the end, either the City will have to reduce its costs, increase its revenues, or both. Until the City makes a decision regarding this fundamental issue, it will not have successfully remediated the problem.

As an unavoidable imperative, the City should contribute to SDCERS annually the ARC, as calculated by the SDCERS actuary, including an amount sufficient to amortize the existing UAAL over a reasonable period of time that assures that current taxpayers are paying for the full cost of services rendered by employees of the City and not passed on to future generations. For purposes of calculating annual funding requirements, the UAAL should reflect a prudent view of economic reality, and include within it the costs of the *Corbett* settlement.

We recommend against using the City's contribution to pay for any benefits other than retirement benefits and the related costs of administering the Plan. Thus, no portion of the City's annual contribution to SDCERS should be credited against the City's obligation to pay retiree healthcare costs, or for any other of the so-called "Waterfall" payments, unless and until the City pays the required ARC. Nor should the City be relieved of the obligation to make annual ARC payments because the system's funded ratio has grown to a level deemed more acceptable, such as the 82.3% MP-1 trigger.

The past practice of using SDCERS surplus earnings to fund retiree health care benefits and the administration of the retiree healthcare program violated the Internal Revenue Code, which could both endanger the pension plan's tax exempt status and force the City to repay to SDCERS the assets it diverted from the system to pay retiree healthcare costs. The Audit Committee recommends the City and SDCERS make voluntary disclosure through a self-reporting process to the IRS of the amount of any improper diversion of funds, and cooperate with the IRS to bring the City's retiree healthcare funding into full compliance. We understand that SDCERS has already expressed a willingness to work with the IRS in this regard, and we recommend that the City use all resources at its disposal to assist SDCERS in a joint effort to remedy past errors and maintain a fully compliant retiree healthcare funding structure going forward.

Apart from remedying past tax code violations, the cost of retirement healthcare benefits continues to loom as a long-term liability of potentially enormous proportion. The Audit Committee commends the Mayor for addressing this issue head on in his 2007 budget, in which he called for the establishment of a retiree health care trust fund.

We recognize that government accounting standards have been slow to adapt to this rapidly changing field. Though the GASB will not require disclosure of retiree healthcare benefits until FY 2008, we commend the City for what we understand to be its decision to make early disclosure of such costs in its next issued financial statement.

17. RETENTION OF SDCERS AND CITY ACTUARY

Because we place such importance on the City's annual contribution of ARC, as calculated by an actuary, the Audit Committee recommends the City periodically, but no less frequently

than every three years, retain its own actuary to review the SDCERS actuarial valuation and the assumptions used, and to provide an independent assessment of the valuation, and the implications for the City.

We also recommend that SDCERS rebid the contract for the performance of its actuarial valuation every five years and that the actuary not be engaged for more than two five-year terms. After an engagement for the maximum ten-year term, an actuary is eligible to be considered for an engagement only after five years of no service to SDCERS.

In addition, the City must retain an actuary responsible for determining for the City the cost of each proposed new retirement benefit, and to issue a report thereon to the City Council before an ordinance is adopted conferring the benefit. The costs should be reflected in the City's annual budget and five-year plan, and variances caused by changes in actuarial assumptions should be explained.

18. SDCERS LEGAL COUNSEL

The City's pension crisis can be traced to a series of decisions by the SDCERS Board in which the retirement system's long-term financial interests were sacrificed for the City's need for short-term budget relief. To enhance the likelihood that SDCERS will act for the sole benefit of the system's beneficiaries, independent of the City, SDCERS must be free to retain its own independent legal counsel.

19. FUNDING METHOD

As noted above, the City, in response to the Report of the Pension Reform Committee, amended the Charter to require net actuarial losses be amortized over a period not longer than 15 years, net actuarial gains over a period not shorter than five years, and that SDCERS use an amortization period no greater than a fixed, straight-line five years for each new benefit improvement. We recommend the City use the same period for amortization of both gains and losses.

20. BUDGET ASSUMPTIONS/MONTHLY BUDGETING

It is by now beyond dispute the City's planning process and budgeting cannot be counted on to present in comprehensible terms the stark realities the City faces. For over 10 years, through MP-1 and MP-2, the City shortchanged the pension system to avoid the impact of necessary pension payments on current budgets and handed the obligation off to another generation of taxpayers. Even today there are items in the City's 2007 budget, such as deferred maintenance and the City's post-retirement healthcare obligation, that have the earmarks of another looming fiscal obligation of unknown dimension.

The City should publish, along with the annual budget, the significant assumptions that can materially affect the budget and a comparison of these assumptions against actual experience in recent years. For example, such assumptions ordinarily should include population growth; the number of tax and fee payers; the number, growth and turnover rates of employees; and inflation rates. Any significant variances between actual and projected assumptions should be adequately explained in the final published budget.

The City budget should be presented by month, by department. It should present budget to actual comparisons by department, fiscal year to date, along with variances on a monthly basis. At least quarterly, a report should be prepared reflecting this information in aggregate, with an explanation of significant variances, which is disseminated to the public.

At year end, a budget should be presented to the City Council containing a final budget to actual comparison, along with an explanation of variances by department. Inter-departmental transfers to meet budget goals, or for any other purpose, should not be permitted unless approved in advance by the City Council.

21. FIVE YEAR PLAN

Because long-range budget planning is virtually non-existent, the practice of addressing short falls in the budget by underfunding long term obligations, such as the retirement system, receives little attention from the Council or the public.

The CFO and Mayor should submit annually to the City Council as part of the annual budgeting process, a rolling five-year proposed plan that contains major items, including (i) capital expenditures; (ii) deferred maintenance; (iii) debt payments and other major contractual obligations; (iv) major sources of revenue; by category; and (v) a forecast of gross cash receipts and gross cash expenditures.

22. DISCLOSURE TRAINING

We have already recommended training for employees involved in financial reporting and accounting functions, and have assigned responsibility for this to the CFO. We note that the DPWG has already begun mandatory training of the City staff and elected officials regarding their disclosure obligations under federal and state securities laws. We endorse the remedial actions of the DPWG, but recommend that training be conducted no less frequently than every two years.

23. CITY COUNCIL 14-DAY DISCLOSURE REVIEW PERIOD

The City Council is, after all, the governing body that authorizes the City to borrow from the public. It exercises oversight of an enterprise that investors look to for repayment. Like the board of directors of any large public company, the Council has authority over the management of a large work force, and can (and should) hold department and agency heads to account for failing to deliver services. This duty to perform an oversight role is not optional, nor does it vary depending upon familiarity with the subject matter, or a member's expertise or comfort level. Nor can the duty be avoided by delegation. In accounting and financial reporting matters, the City Council's oversight role requires thoughtful engagement and careful deliberation.

The City Council's oversight function cannot be performed if sufficient time is not allowed to review financing disclosure documents, which can be lengthy and complex. The City Council, which authorize these issuances, is comprised of persons lacking in relevant expertise, who therefore rely heavily on the City staff. Our investigation has shown that the

City Council's review of disclosure documents, even under the watchful eye of members of the City Attorney's Office, has at times been rushed and perfunctory.

The Audit Committee therefore recommends that the City Council have at least two weeks to review substantially completed drafts of a preliminary offering statement before it is asked to vote to approve the final document. We understand the City may at earlier stages in the process be required to review a draft in good form, to solicit input and comments, which should be encouraged. The City Council members should also establish a reasonable period of time for the review of a final document, with marked changes from earlier drafts. Moreover, because the City CAFR is an integral component of the financial information provided as part of any debt issuance, the City Council should review and approve its use following the same procedures.

24. OVERSIGHT BY MONITOR

This Report recounts a history of repeated government failures. Internal decision-making processes essential for allocating scarce public resources have been corrupted, distorted to serve short term ends, or simply circumvented. Recommendations from previous studies and investigations, such as those of the Pension Reform Committee, have been ignored. By this point, in the face of several pending governmental investigations, there is little reason to have confidence that the City can reform itself. Therefore, the Audit Committee recommends the appointment of a Monitor to oversee the implementation of and compliance with the Remediation Plan.

A City Monitor should be selected by the Mayor in consultation with the City Council and subject to the approval of the SEC, for oversight of the City's compliance with the Remediation Plan. The Monitor should be an independent person of suitable standing, independence and experience for this assignment. The Monitor should have complete and unfettered access to all City and SDCERS personnel and records. The Monitor should make quarterly reports to the City and the SEC reporting on the City's progress. These reports should be made public in an appropriate manner including on the City's website. The Monitor should serve a term of no less than 3 years and should be provided adequate resources to carry out the duties of his office. The SEC should have the right, upon request, to expand the scope of the Monitor's duties following consultation with the City.

25. REVENUES AND EXPENDITURES

Revenue per capita has been increasing, but is less than that of other large cities. In order to maintain current service levels and address issues such as deferred maintenance, the City must reduce expenditures by improving efficiency, increasing the current revenue base, and seeking alternative revenue sources.

26. BUDGETING AND FINANCE PRINCIPLES

The Blue Ribbon Committee found five of the City's six existing budgeting principles were sound and appropriate. The Blue Ribbon Committee recommended modifying one of the principles and adding two new principles. The Blue Ribbon Committee supported the following existing principles:

- Ongoing expenditures should be supported by ongoing revenues.
- Capital projects should identify all future cost considerations and financial impacts.
- Include direct and indirect costs for each Enterprise Fund.
- Activities supported by user fees should be fully cost recoverable.
- Discretionary General Fund revenues should not be earmarked.

The Blue Ribbon Committee recommended increasing the General Fund reserve from the current level of 3% of the General Fund to the range of 7-10%. The Blue Ribbon Committee also recommended adding two new budgeting principles.

We agree with the aforementioned recommendations. Budget development should be guided by a long term or strategic plan proposed by the Mayor and adopted by the City Council. After adoption, annual budgets should be amended only for urgent needs. Specific funding sources should be identified to pay for these needs.

27. FINANCIAL REPORTING

Annually, the City prepares a CAFR which includes its basic financial statements. Due to material weaknesses in its financial reporting processes, the previously reported June 30, 2002 net assets will be restated in the June 30, 2003 financial statements to correct nearly 40 incorrect items totaling more than \$1 billion. The corrections result in a net write-down of net assets exceeding \$500 million. They include errors related to the accounting for leasehold improvements on City owned property as contribution revenue (e.g. PETCO Park Ballpark and Zoological Society of San Diego), failing to remove assets no longer belonging to the City (e.g. land held for resale and investments used to defease debt), recording loan proceeds as revenue instead of debt, not accounting for bond issuance costs, and incorrect revenue recognition. Additionally, a number of the disclosures included in the June 30, 2002 CAFR were inaccurate.

It appears that these errors and omissions were caused by a variety of issues identified and discussed in the Auditor & Comptroller's 2006 Report on Internal Controls. While the City has made a number of personnel and process changes since June 30, 2002, it must continue to reorganize and refine its processes and train its personnel in order to improve internal controls. The City needs to reduce to a sufficiently low level the risk of errors or fraud material to the financial statements.

28. FINANCIAL STATEMENT PREPARATION

The City currently extracts data from the accounting system and uses excel spreadsheets to prepare the financial statements and complete the year-end closing. This manual process increases the likelihood of errors such as excluding accounts from the financial statements. The City was not able to provide supporting documentation to completely reconcile financial statement figures to general ledger data.

The City should implement and utilize an automated financial reporting system to prepare the financial statements and complete the year-end closing. The City should maintain documentation supporting adjustments to facilitate the review of financial data.

29. COMPLEX ACCOUNTING SYSTEM

The City uses many separate funds to account for similar purposes. The City also uses similar, but not identical, general ledger accounts for its enterprise and government funds. Therefore, the City lacks a consistent chart of accounts. Account numbers within the same financial statement caption vary from four to six characters in length. This inconsistency creates additional potential for errors related to interfund transactions.

The Comptroller should develop a chart of accounts that is consistent across all functions and funds and consolidate funds where possible. The Comptroller should review the current policies and procedures related to creating funds and accounts. If necessary, the ability to create funds and accounts should be limited. The Comptroller should consider using cost centers, index codes, or projects to achieve separate grant, program, and project tracking.

30. CASH AND INVESTMENT RECONCILIATION

The City performed a three-way reconciliation of cash and investment balances between the City Treasurer, the City's general ledger, and the bank statements. Even though this reconciliation was performed, the City experienced considerable difficulties identifying the general ledger cash balance. It is our understanding that the City's cash account balances have not been completely reconciled.

The City must develop an improved reconciliation process, which is more automated, documented, and complete. The revised process must support accuracy, timely completion, and improved ease of review.

31. CITY TREASURER'S CASH

The City's process for allocating interest and reconciling cash and investments was unduly cumbersome, lacked proper management review, and was not completed in a timely manner. Procedures related to cash and investments identified the following:

- Only one-third of the accounts selected for test work were reconciled within the 45 day period defined by the City Treasurer's performance measures.
- Reconciling items remained outstanding for several months due to lack of communication between the Auditor & Comptroller's Office and the Treasurer's Office and because account reconciliations were not completed in a timely manner.
- The interest allocation was not sufficiently reviewed by management. Additional review identified allocation errors.

The City should develop and implement a timely and less cumbersome bank reconciliation process to clearly reconcile bank and the general ledger balances. The improved process should facilitate timely completion, ease of review, correction of errors, and enhance communication between the Auditor & Comptroller's Office and the Treasurer's Office. The interest allocation process should receive sufficient management review.

32. JOURNAL ENTRY PROCESS

10 of 25 post-closing journal entries examined were approved by the individual that prepared the entry. Other post-closing journal entries lacked approval signatures. The City's internal control policies require approval from a senior accountant for these transactions. This internal control deficiency could allow recording of incorrect or fraudulent transactions.

The Comptroller should review and assess the journal entry preparation and approval process. The duties of preparing and approving of journal entries must be appropriately segregated. The Comptroller should assign ultimate responsibility for journal entry review and approval to an individual within the Comptroller's Office. The Auditor General should analyze the journal entry approval process as part of that office's review of City operations.

33. ANNUAL FINANCIAL STATEMENT AUDIT PROCESS

A number of City-prepared schedules are necessary to complete the audit of the financial statements. These were requested at the beginning of the audit and had not been completed eight months after the end of the fiscal year. As a result, information such as long-term debt and capital asset roll forward schedules were received late in the audit process.

City schedules requested by the external auditors should be prepared and internally reviewed before the auditors begin work. As part of a sound financial reporting system, the City should prepare supporting schedules and detail for all major accounts and transactions during the monthly closing process.

34. INTERNAL AUDIT – RISK ASSESSMENT PROCESS

The City's internal audit department lacks a documented risk assessment process for identifying issues and areas to audit. Instead, internal audits are completed based on mandates or management requests. In accordance with the *International Standards for the Professional Practice of Internal Auditing*, the Auditor General should establish risk-based plans to determine the priorities of the internal audit activity.

The Auditor General should use a systematic and disciplined approach based on a risk assessment to select audits. This risk assessment should be completed at least annually. The department should evaluate and contribute to improving risk management, controls, and governance processes. The internal audit activity should focus on improving the control systems related to: the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations; and safeguarding assets. Elected officials, their staff, and the City's senior management must be considered by the internal audit function. (the City has implemented an annual evaluation of internal controls – it is currently conducted by the Auditor & Comptroller)

35. PENSION ACCOUNTING

GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, established standards for local government pension accounting. The statement requires the City to measure and disclose an amount for annual pension cost on the accrual

basis of accounting, which starts with the calculation of an ARC, based upon actuarial standards.

The City set aside a portion of pension plan assets as “surplus earnings.” The “surplus earnings” were used to fund additional benefits, such as retiree health benefits or employee contributions. However, the City did not consider these activities when calculating pension expense in its financial statements.

Correcting for additional benefits resulted in increasing the June 30, 2002 net pension obligation in the City’s government-wide financial statements by more than \$60 million. Correcting for the employee offset accounting resulted in increasing the June 30, 2002 net pension obligation in the City’s government-wide financial statements by nearly \$4 million.

In addition, benefits such as those resulting from the *Corbett* settlement, were excluded from the actuarial accrued liability disclosure because they were incorrectly defined as “contingent.” If this liability were appropriately accrued, it would have increased the June 30, 2002 actuarial accrued liability disclosure by more than \$50 million.

The City must consider the substance of transactions when identifying the appropriate accounting treatment. For example, paying retiree health benefits from pension plan assets withdrew money from the pension plan. These amounts were not reflected as expenses in the City’s CAFR.

36. FINAL REPORT – PENSION REFORM COMMITTEE OF SAN DIEGO

The Pension Reform Committee assessed the pension plan’s underfunded status and offered recommendations related to reducing or eliminating the City’s UAAL and reducing the ongoing annual costs related to the plan and contingent benefits. The City should re-evaluate the Committee’s recommendations and, beyond those previously addressed in our Report, consider enacting those that are appropriate that do not conflict with our Remediation Plan.

Pension Reform Committee Recommendations:

- A. Issue Pension Obligation Bonds to facilitate a cash infusion into the pension plan.
- B. Amend the City Charter to require that net actuarial gains be amortized over a period of no longer than fifteen years and that net actuarial losses be amortized over a period of no less than five years. (*San Diego City Charter art. IX, § 143 was amended and this is effective for FY 2008*)
- C. Amend the City Charter to require an amortization period of no longer than five years, straight-line basis, for any past service liability associated with any new benefit improvement. (*San Diego City Charter art. IX, § 143 was amended accordingly*)
- D. The City’s annual required contribution to the plan should be defined as the sum of the Normal Cost, UAAL amortization (including interest), and estimated contingent payments for the year.

- E. Payments for retiree healthcare benefits should not be funded through the pension plan. San Diego Municipal Code § 24.1502(a)(5) should be eliminated to remove healthcare benefits from the pension plan's distribution waterfall.
- F. To reduce the City's Normal Cost, the standard retirement age should be increased by seven years for all employees. Standard retirement age for General and Legislative members should be increased to 62. Standard retirement age for Fire and Safety members should be increased to 57. The early retirement age should be set equal to five years less than the standard retirement age. Early retirement age for General and Legislative members should be increased to 57. Early retirement age for Fire and Safety members should be increased to 52.
- G. The annual accrual rate for the percentage of the final base payroll used to calculate pension benefits should be reduced by 20%.
- H. Use the average of an employee's highest three years of salary instead of the highest single year as the basis for determining pension benefits.
- I. Exclude salary differentials such as second shift and bilingual components when determining the basis for calculating pension benefits.
- J. Except for those that are federally protected, eliminate programs such as DROP and purchase of service credits to avoid incurring additional pension plan liabilities in the future.
- K. Establish a separate trust or separate accounting within the pension trust to account for post retirement healthcare plan assets and liabilities. Annual contributions for post retirement healthcare benefits should be separately identified in the City budget and segregated from retirement plan contributions.
- L. Adopt GASB Statement #43 (Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans as of July 1, 2005). (This addresses the accounting for the post retirement healthcare benefits, but does not deal with the City's ability or inability to fund the existing obligation.)
- M. Modify composition of SDCERS Board to seven members appointed by the City Council. These members will serve staggered four year terms and be limited to serving no more than two consecutive terms. The appointees will be required to have appropriate backgrounds and professional experience. They also must be free of conflicts of interest.
- N. Add provision to City Charter such that decisions made by disability retirement hearing officers are final, instead of being recommendations requiring Board approval.
- O. Review the application process and related systems for the disability retirement plan.

- P. The City Council Rules Committee should request and obtain a report and recommendations from SDCERS addressing equal cost sharing by the City and the employees.

37. CAPITAL ASSET ACCOUNTING

Errors in the City's financial statements resulted from deficiencies in internal controls related to capital asset accounting. For example:

- Assets placed in service were not transferred from construction-in-progress to depreciable assets. This resulted in a misclassification of reported capital assets and an underreporting of depreciation expense.
- Projects where planning, pre-design, and other preliminary costs were incurred, but the projects were later canceled or abandoned were not removed from the City's reported capital asset balances.
- The City was required to capitalize infrastructure as a result of implementing GASB 34 in fiscal year 2002. The City capitalized certain assets that had already been recorded in its capital improvement program, which overstated assets.
- Developer-contributed assets for the sewer and water systems were not recorded as City assets or were not reported in the year the transactions occurred. This understated capital assets in the City's financial statements.
- Errors related to book values and estimated useful lives of assets overstated net capital assets reported in the City's financial statements.
- Errors related to the recording of various parcels of land overstated the capital assets reflected in the City's financial statements.

The City has taken a number of steps to quantify the impact and correct its financial statements for the items noted above. The City should continue to monitor the internal controls over these areas to ensure that potential errors in the future are detected and corrected in a timely manner.

38. LAND HELD FOR RESALE

The San Diego Redevelopment Authority utilizes two management companies to administer project areas. Both management companies typically record land-held-for-resale transactions as they occur, but this information was not communicated to the Redevelopment Authority in a timely manner. As a result, significant reconciling items existed between the management companies and the Redevelopment Authority. Additionally, long-term debt was not removed from the books until significantly after the loans were repaid.

The Redevelopment Authority should develop necessary processes to obtain relevant information from the management companies. It must obtain data related to the purchase or sale of property and the borrowing or repayment of debt in a timely manner to accurately report assets and liabilities.

39. DEFERRED MAINTENANCE AND UNFUNDED PROCUREMENT

The Blue Ribbon Committee estimated City unfunded deferred maintenance exceeds \$300 million. This includes deferred maintenance related to streets, alleys, sidewalks, street lights, traffic signals, bridges, buildings, and other assets. According to the Blue Ribbon Committee Report, data provided to the Blue Ribbon Committee was incomplete, preliminary, and inconsistent, and thus, the Blue Ribbon Committee was unable to accurately quantify deferred maintenance. However, the Blue Ribbon Committee found that the City's current funding level was not reducing the deferred maintenance backlog. Instead, the Blue Ribbon Committee found that the City's current funding level was contributing to the increase in the backlog. The Blue Ribbon Committee was also advised that more than \$170 million in previously unfunded Information Technology procurement was needed over the next five years.

We recommend that the Mayor and the Budget Director establish a process to identify and prioritize deferred maintenance and unfunded procurement needs. The Budget Director should prepare and present a public report identifying cumulative deferred maintenance and unfunded procurement needs during the annual budget hearings. The City's approach to funding deferred maintenance and unfunded procurement should be changed to allow for increased funding in these areas.

40. CONSTRUCTION-IN-PROGRESS ("CIP")

Both the City's accounting system and the City's fixed asset management information system (FAMIS) are unable to track CIP. The City currently identifies CIP transactions by either manually searching through the "30244 memo fund" or through discussions with multiple accountants assigned to monitor ongoing projects. Therefore, tracking and reconciling CIP information is a significant manual process that is prone to errors. Additionally, the depreciation related to completed CIP projects was separated from the City's other capital projects and was calculated manually.

The City should develop a procedure, such as using a specific object or index code and preparing a report based on the code, to use the accounting system to directly identify information related to CIP in an automated manner. The City should invest in capital asset information systems that accommodate CIP to reduce the current reliance on manually prepared spreadsheets. These modifications will reduce the time and expense related to gathering this information, reduce errors, and improve the accuracy of tracking CIP and recording depreciation on completed projects.

41. ACCOUNTS RECEIVABLE

A number of deficiencies in the internal controls related to accounting for accounts receivable were identified.

- Subsidiary ledgers and supporting detail for the City's various types of accounts receivable are not reconciled to the general ledger.
- Estimated year end amounts are not properly analyzed and supported.

- The City does not perform a structured, methodical analysis to evaluate the adequacy of the allowance for uncollectible accounts receivable.
- Estimated year end water and wastewater accruals for earned but unbilled revenue are not properly calculated. The earned but unbilled revenue accrual calculation is based on current year billed amounts. However, a portion of these billed amounts are subsequently adjusted, credited, and rebilled after year end. This approach overstates year end earned but unbilled revenue accrual.

The City should develop and implement policies and procedures to reconcile, support, and review period end accounts receivable balances. For example:

- Reconcile all accounts receivable subsidiary ledgers and supporting detail listings to the general ledger on a regular basis. Reconciling items should be identified and resolved in a timely manner.
- Properly calculate and support year end estimates.
- Analyze each account receivable category to ensure that the allowance for uncollectible accounts recorded in the general ledger is appropriate. The analysis should include documentation supporting management's assumptions.
- Modify the methodology used to estimate the earned but unbilled revenue accrual to exclude overstatements resulting from credit and rebill items.

42. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

In order to record accounts payable accruals as of year end, the City kept the 13th period open from July 1, 2003 to August 15, 2003. During the 13th period, the City accrued expenditures at year end for disbursements greater than \$100,000 that related to fiscal year 2003. Disbursements made subsequent to August 15, 2003 were recorded in fiscal year 2004, regardless of the year in which the services were received. Additionally, errors related to utility bills recorded on the cash basis were noted.

The City should increase the length of the 13th period and establish a procedure to review all disbursements made subsequent to year end in excess of a pre-determined threshold. This will assist in properly capturing significant accruals within the correct fiscal year. Additionally, the City and Departments should identify routine accruals, such as utility bills, and ensure they are properly recorded at year end.

43. METROPOLITAN WASTEWATER UTILITY

More than 10% of the sewer department's Municipal – Metropolitan allocation invoices sampled lacked sufficient detail to support the allocation of the charges. The classification of invoices as either Municipal or Metropolitan is decentralized and performed by several accounting clerks with varied expertise and experience levels. Some of the accounting clerks responsible for classifying these invoices appear to lack sufficient knowledge to identify appropriate documentation and distinguish between Municipal and Metropolitan items. This internal control deficiency could result in significant misstatement of sewer department receivables and expenses.

The City should educate the employees responsible for recording sewer invoices on how to identify the appropriate supporting documentation for Municipal and Metropolitan allocations in order to reduce the likelihood of significant misclassifications.

44. METROPOLITAN WASTEWATER UTILITY

Revenue received from the Metropolitan Wastewater Utility Participating Agencies was not reconciled to supporting information. This resulted in a deferred revenue overstatement of approximately \$10 million as of June 30, 2002. The Metropolitan Wastewater grants receivable was not reconciled to supporting information. Therefore, errors occurring when subsequent grant receipts were reported as additional revenues were not identified on a timely basis.

City Departments should reconcile all accounts receivable and deferred revenue accounts to supporting information at period ends. Supervisors should review these reconciliations for completeness and accuracy.

45. RISK MANAGEMENT

The Risk Management department did not effectively monitor all City risks. The department did not track claims that would result in non-monetary settlements or claims that would be funded by other departments. Failure to consider these matters could understate the City's potential liabilities. Historically, the City has not budgeted sufficient amounts for the Public Liability obligation. The City typically makes supplemental transfers from the General Fund to meet Public Liability needs.

Communication between the Risk Management department and the City Attorney's Office regarding outstanding case reserves and litigation issues was limited. The City defends a significant number of matters related to general liability and workers' compensation claims. The City is self-insured for these claims and has recorded a liability in its internal service funds. The recorded liability is based on the results of actuarial studies performed by an independent actuary. The City also estimates a general litigation liability for matters not covered by the self-insurance program.

The Risk Management department should have responsibility for tracking all claims and cases against the City. Formal procedures to monitor the adequacy of case reserves and general litigation estimates should be implemented. Such procedures should include an established communication process between the Risk Management department, the CFO, Auditor General, and the City Attorney. This communication should take place at least once each quarter, and is particularly important for accurate year end financial reporting purposes.

This communication will serve as a notification and oversight mechanism for material pending or threatened claims. It will ensure that large claims are appropriately reviewed and addressed by management early in the claims process. It will also facilitate adequate reserve estimates for individual claims and proper budgeting for potential obligations. This process also provides an opportunity to improve the existing operational or loss control procedures and reduce future losses.

46. WORKERS' COMPENSATION PENALTIES

The City must pay a penalty of up to 10% of the final total disability settlement owed on a case (City Labor Code 4650) if Workers' Compensation payments are paid more than fourteen days after the settlement due date. The City paid this penalty on more than 10% of the settlements tested.

The City should improve monitoring of Workers' Compensation cases and ensure that payments are made in a timely manner to avoid penalties.

47. PROCUREMENT

Deficiencies within the City's procurement functions were identified.

- Departments can procure non-engineering consulting services without involving the Procurement Department.
- The City Council must approve aggregate fee allocations exceeding \$250,000 to a single consultant. The City lacks controls to prevent approving multiple services from a single consultant which exceed \$250,000.
- Instances were noted where an individual that completed a requisition could complete the manual receiving report for the receipt of goods.
- The City uses a PA2610 requisition form to purchase items from vendors after a blanket purchase order has been issued. It was noted that no formal process for tracking the issuance of blank PA2610 forms exists. Therefore, after a purchase order has been issued, City employees possessing a requisition form can obtain goods and services directly from a vendor.

The City should review procurement procedures to ensure compliance with all applicable policies, the proper segregation of duties, and the proper safeguard of requisition forms.

48. HUMAN RESOURCES

The City's human resources function does not prepare or maintain complete employee files. Instances of employee files lacking required and relevant employment documents were noted.

The City should develop and follow procedures to improve the creation and maintenance of employee files. All pertinent and required documentation (e.g. authorization to hire, pay rate documentation, IRS Form W-4, U.S. Citizenship and Immigration Services Form I-9, and others) should be centrally gathered and maintained.

49. INTERNAL MONITORING

The existing process primarily reacted to events and did not proactively monitor the effectiveness of internal controls. As of January 1, 2006, the DPWG had not fulfilled certain milestones. City Auditor & Comptroller and City Manager certifications were not completed. Formal recommendations regarding disclosure controls were not made to the

City Manager by December 30, 2004. The Financial Reporting Oversight Board had not been appointed due to the ongoing investigations and the appointment of outside consultants as the City's Audit Committee.

The City should require the Auditor General to adopt a comprehensive risk assessment and planning process that actively addresses financial reporting, accounting activities, and other issues. The department should base audit plans on both subjective analysis of comments from management and objective analysis of financial and operating data. The overall plan should be presented to the new Audit Committee and the City's elected officials.

50. OVERPAYMENT OF DECEASED PENSIONERS

Internal control deficiencies limited the pension's ability to prevent, track, and recover overpayments to deceased pensioners.

SDCERS should develop a comprehensive methodology to identify, track, and recover overpayments made to deceased pensioners. Currently, the pension is conducting death match audits more frequently to reduce these overpayments.

51. SUGGESTIONS RELATED TO SDCERS

The City Council and employees should develop realistic retirement plan parameters for future City hires. This includes positioning the City to attract and retain the talent needed to meet the citizens' expectations for services, not be viewed as providing excessive benefit levels, and creating a plan the City can afford. The plan's actuary should be engaged to develop a responsible funding program that considers expected cash distributions and the obligations to new and existing plan members.

To address Board authority and pursue administrative excellence, the controlling documents should be reviewed and, if necessary, modified to ensure that the Board has the necessary tools available to effectively and efficiently carry out its fiduciary duties. The controlling legal documents must make the Board's authority clear related to investment policy, actuarial assumptions, system budget and policies, retention of outside professionals, and administrative rules.

52. CITY ATTORNEY CERTIFICATIONS

The City Attorney or City Attorney staff member should collect information relevant to public filings and bond offerings. The City Attorney or City Attorney staff member should confirm, in writing, the accuracy of this information in the City's public documents.

53. DISCONTINUE ASSIGNING RESPONSIBILITY FOR PREPARING CAFRS AND BOND OFFERINGS TO OUTSIDE PROFESSIONALS

The City should assign the responsibilities for preparing public documents and filings to the appropriate City employees. Ultimate responsibility for preparing these City documents cannot be assigned to the independent auditor, disclosure counsel, fiduciary counsel, actuary, or other professionals.

54. INFORMATION TECHNOLOGY

The City's current email system does not facilitate the storage, search and extraction of data. Novell, the developer of the City's email system, offered several suggestions to improve data retention within the City.

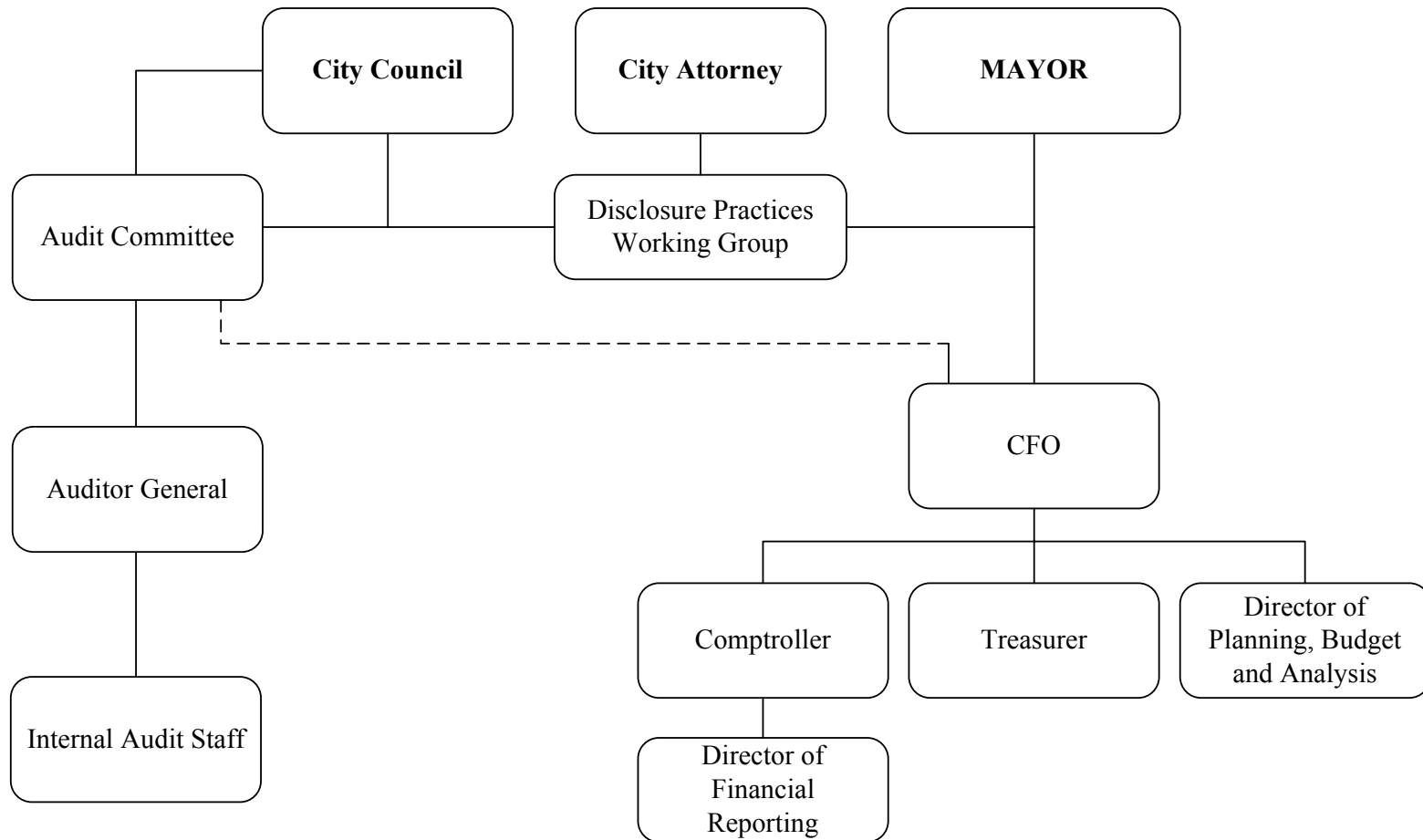
All City "Post Offices" should be centrally operated, maintained, and backed up. Consolidating systems and personnel will improve economy and ease maintenance. It will also ensure consistent data retention systems, policies, and procedures are used for City information.

Appendix N

Appendix N

Report of the Audit Committee of the City of San Diego

Proposed Financial Reporting Reorganization



NOTE: Support to the Audit Committee would be provided by the CFO and Auditor General and their Staffs.

Appendix O

Appendix O

Report of the Audit Committee of the City of San Diego

Charter and Municipal Code Provisions Related to Remediation Recommendations

CHARTER/CODE PROVISION	TITLE	ADD, REVISE OR DELETE
City Charter art. V § 39	City Auditor and Comptroller	Revise to account for splitting Auditor and Comptroller
City Charter art. VII § 70	Power to Fix Salaries	Revise to account for splitting Auditor and Comptroller – include CFO only
City Charter art. VII § 71	Preparation and Passage of Annual Appropriation Ordinance	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. VII § 71a	Reappropriations at Beginning of Fiscal Year for Salaries and Maintenance and Support Expenses	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. VII 72	Appropriation Accounts	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. VII § 74	Appropriation Required for City Debt	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. VII § 80	Money Required to Be in Treasury	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. VII § 82	Examination and Investigation of Claims by the Auditor and Comptroller	Revise to account for splitting Auditor and Comptroller – assign to Auditor
City Charter art. VII § 83	Payment of Claims Against the City	Revise to account for splitting Auditor and Comptroller – assign to CFO

CHARTER/CODE PROVISION	TITLE	ADD, REVISE OR DELETE
City Charter art. VII § 86	Disposition of Public Moneys	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. VII § 87	Uniform Accounts and Reports	Revise to account for splitting Auditor and Comptroller – assign to Comptroller
City Charter art. VII § 88	Monthly Reports of Officers	Revise to account for splitting Auditor and Comptroller – assign to Comptroller
City Charter art. VII § 89	Monthly Statements by the Auditor and Comptroller	Revise to account for splitting Auditor and Comptroller – assign to Comptroller
City Charter art. VII § 110	Claims Against the City	Revise to account for splitting Auditor and Comptroller – assign to Comptroller
City Charter art. VII § 111	Audit of Accounts of Officers	Revise to account for splitting Auditor and Comptroller – assign to Auditor
City Charter art. VII § 112	Appraisal of City Assets	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. VIII § 126	Certification of Pay-rolls	Revise to account for splitting Auditor and Comptroller – assign to CFO
City Charter art. IX § 144	Board of Administration	Revise to change composition; Revise to account for splitting Auditor and Comptroller – assign to CFO

CHARTER/CODE PROVISION	TITLE	ADD, REVISE OR DELETE
City Charter art. XV § 265	The Mayor	Add: 1) Annual Management Report duties; 2) 5-year budget; 3) revise to account for splitting Auditor and Comptroller – include only Comptroller
City Charter art. V § 45	City Treasurer	Revise to account for splitting Auditor and Comptroller – assign to CFO
Municipal Code § 22.4101	Disclosure Practices Working Group	Revise so that it reports to the Audit Committee
Municipal Code § 26.1702 ¹	Financial Reporting Oversight Board	Delete
Municipal Code § 26.1702	Auditor selection, rotation provisions	Add to Municipal Code
City Charter art. IX § 142	Contributions	Revise to account for change in City's contributions to pension fund
City Charter art. IX § 143	Employment of Actuary	Revise to account for changes regarding SDCERS actuary
Municipal Code 22.0101.5	Permanent Rules of the Council	Revise Municipal Code to include 14 days for Council to review POS, OS and CAFR
N/A	CFO	Add (also include annual management report duties and 5-year budget)
N/A	Director of Financial Reporting	Add

¹ Given that the San Diego Municipal Code is over a thousand pages long and not readily searchable, there may be provisions that would need to be changed because of our Remediation Plan that are not listed in this chart.

CHARTER/CODE PROVISION	TITLE	ADD, REVISE OR DELETE
N/A	Director of Budget and Planning (note: Office of Independent Budget Analyst (Municipal Code §§ 22.2301-22.2306 and City Charter art. XV, section 270(f))	Add (consider revision of Office of Independent Budget Analyst)
N/A	Annual Management Report	Add to Municipal Code
N/A	Independent Audit Committee	Add (also include a provision requiring the Committee to perform an annual self-evaluation)
N/A	Budgetary changes	Add to Municipal Code

Appendix P

Appendix P

Report of the Audit Committee of the City of San Diego

Remediation Measures Already Implemented By The City

1. FINANCIAL REPORTING OVERSIGHT BOARD

Create a Financial Reporting Oversight Board, consisting of three members, to review and evaluate the City's annual report on disclosure controls made by the Disclosure Practices Working Group, the outside auditor's management letter and the City's response to it, and the City's annual report on internal controls, as well as evaluate the outside auditor's work product and procedures. The Board would also establish procedures to receive and respond to complaints or concerns regarding accounting, auditing and internal control matters. Lastly, the Board would evaluate and recommend the City's independent auditor.

Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego Employees' Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 168-69 (Sept. 16, 2004).

Implemented: San Diego Municipal Code §§ 26.1701, 26.1702, 26.1703, 26.1704, 26.1705, and 26.1706.

[Not yet in effect - Pending Audit Committee Report]

Recommended for repeal by the Remediation Plan of the Audit Committee.

2. DISCLOSURE PRACTICES WORKING GROUP

The City Council should direct the establishment of a Disclosure Practices Working Group to ensure compliance of the City with federal and state securities laws and to promote high standards of accuracy in disclosures. The Group's responsibilities would also include designing and implementing the City's disclosure controls and procedures, ensuring that City staff receive appropriate training concerning controls and procedures and that City staff, and hired and elected officials would receive mandatory training regarding disclosure matters, reviewing the form and content of all City documents connected with its disclosure obligations, and evaluating disclosure controls and procedures and the City's compliance with them. By December 1, 2004, the Group would recommend new disclosure controls and procedures to the City Manager to ensure accuracy of the City's disclosures and the City's compliance with securities laws.

Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego Employees' Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 164-68 (Sept. 16, 2004).

Implemented: San Diego Municipal Code §§ 22.4101, 22.4102, 22.4103, 22.4104, 22.4105, 22.4106, 22.4107, 22.4108, 22.4109, 22.4110, 22.4111, and 22.4112.

Recommended with amendment by the Remediation Plan of the Audit Committee.

3. ANNUAL EVALUATION OF DISCLOSURE CONTROLS

Each year, beginning in 2005, the Disclosure Practices Working Group, working with the City Manager and the City Auditor and Comptroller, would conduct an annual evaluation of the City's disclosure procedures and controls.

Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego Employees' Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 166 (Sept. 16, 2004).

Implemented: San Diego Municipal Code § 22.4106.

Endorsed by the Remediation Plan of the Audit Committee.

4. DEPUTY CITY ATTORNEY FOR FINANCE AND DISCLOSURE

The City Council should amend the Municipal Code to designate a Deputy City Attorney for Finance and Disclosure to supervise the attorneys in the Office of the City Attorney who are responsible for financings and disclosure matters, assist the City Attorney in carrying out the City Attorney's duties regarding the Disclosure Practices Working Group, and assist in preparation of the issuance of the City Attorney's opinion in connection with City financings.

Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego Employees' Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 168-69 (Sept. 16, 2004).

Implemented: San Diego Municipal Code § 22.0302.

Endorsed by the Remediation Plan of the Audit Committee.

5. ANNUAL EVALUATION OF INTERNAL CONTROLS

Each year, beginning in 2005, the Disclosure Practices Working Group, working with the City Manager and the City Auditor and Comptroller shall conduct an annual evaluation of the City's internal financial controls and submit a written report of findings to the City Council and the Financial Reporting Oversight Board.

Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego Employees' Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 163, 167 (Sept. 16, 2004).

Implemented: San Diego Municipal Code § 22.0708 and 22.4106.

Endorsed by the Remediation Plan of the Audit Committee.

6. DEBT OFFERINGS ON REGULAR AGENDA

The City may wish to reconsider the practice of approving debt offerings on the consent agenda and instead place such offerings on the regular agenda.

Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego Employees' Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 169 (Sept. 16, 2004).

Implemented: San Diego Municipal Code § 22.0101.5, Rule 2.4.3(e); Rule 7.7.2.

Endorsed by the Remediation Plan of the Audit Committee.

7. AMORTIZATION LIMITS

The City Charter should be amended to require that, when amortizing net actuarial gains or losses, a period of no longer than 15 years be used for the amortization of losses and that a period of no shorter than 5 years be used for the amortization of a surplus. This change should be effective for FY08 contributions.

Recommended by: City of San Diego Pension Reform Committee Final Report at 14, 35 (Sept. 15, 2004).

Implemented: San Diego City Charter art. IX, § 143 ("Effective July 1, 2008, the Board shall place the cost associated with net accumulated actuarial losses on no greater than a fifteen year amortization schedule and the Board shall place the benefit associated with net accumulated actuarial gains on no less than a five year amortization schedule.")

Endorsed by the Remediation Plan of the Audit Committee.

8. CHANGE AMORTIZATION PERIOD FOR SDCERS PAST SERVICE LIABILITY

The City Charter should be amended to require that for all new pension benefit improvements to the currently existing plan, SDCERS will, when setting actuarial assumptions and methodologies for funding purposes, use an amortization period no greater than straight-line five years fixed for any past service liability for each new benefit improvement. This change should be effective immediately.

Recommended by: City of San Diego Pension Reform Committee Final Report at 15, 35-36 (Sept. 15, 2004).

Implemented: San Diego City Charter, art. IX § 143.

Endorsed by the Remediation Plan of the Audit Committee.

9. SDCERS BOARD COMPOSITION

Change the composition of the Retirement Board to seven members appointed by the City Council. These members will serve in staggered terms of four years each, with a two consecutive term maximum. Such appointees will have the professional qualifications of a

college degree and/or relevant professional certifications, fifteen years experience in pension administration, pension accrual practices, investment management, banking, or certified public accounting. Such appointees will be U.S. Citizens and residents of the City of San Diego but cannot be City employees, participants of the SDCERS, nor a union representative of employees or participants, nor can such appointees have any other personal interests which would be, or create the appearance of, a conflict of interest with the duties of a Trustee.

Recommended by: City of San Diego Pension Reform Committee Final Report at 20, 44 (Sept. 15, 2004).

Partially Implemented: San Diego City Charter art. IX, § 144 (Effective April 1, 2005, the Board is composed of 13 members, seven appointed by the Mayor. Those seven must have the professional qualifications noted as well as be free of any conflicts.)

Recommended with substantial amendment by the Remediation Plan of the Audit Committee.

10. EMPLOYEE HOTLINE

Create an employee hotline for reporting waste, fraud, or abuse.

Recommended by: Office of the Auditor & Comptroller, City of San Diego Annual Report on Internal Controls at 12 (Jan. 1, 2006).

Implemented: <http://www.sandiego.gov/oei/contact/hotline.shtml>

Endorsed by the Remediation Plan of the Audit Committee.

11. BI-ANNUAL VALUE-BASED ETHICS TRAINING

Institute bi-annual mandatory value-based ethics training for all management and elected officials.

Recommended by: Office of the Auditor & Comptroller, City of San Diego Annual Report on Internal Controls at 12 (Jan. 1, 2006).

Implemented: There is value-based ethics training for all employees “who work in departments under the Mayor” (<http://www.sandiego.gov/oei/about/differ.shtml>)

Endorsed by the Remediation Plan of the Audit Committee.

12. RELY ON SINGLE FIRM TO PROVIDE DISCLOSURE COUNSEL

The City should rely on a single, well-qualified firm to provide disclosure counsel.

Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California’s Disclosures of Obligation to Fund the San Diego Employees’ Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 169-70 (Sept. 16, 2004).

Implemented: Minutes, San Diego City Council Meeting at 11-12 (Mar. 8, 2005).

Endorsed by the Remediation Plan of the Audit Committee.

13. CITY AUDITOR & COMPTROLLER SHOULD CERTIFY THE CAFR

The City Auditor & Comptroller shall certify in writing to the Council that to the best of his or her knowledge, the information contained in the CAFR fairly presents the financial condition and results of operations of the City and does not make any untrue statement of a material fact or omit to state a material fact necessary to make the statements made not misleading.

Recommended by: Recommended by: Paul S. Maco & Richard C. Sauer, Vinson & Elkins L.L.P., Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego Employees' Retirement System and Related Disclosure Practices 1996–2004 with Recommended Procedures and Changes to the Municipal Code at 169 (Sept. 16, 2004).

Implemented: San Diego Municipal Code § 22.0709.

Recommended with amendment by the Remediation Plan of the Audit Committee.

Appendix Q

Appendix Q

Report of the City of San Diego Audit Committee

Other Issues Addressed by the Audit Committee

1. CITY OF SAN DIEGO GRANTS

The Audit Committee investigated City grants in addition to the Wastewater grants and loans discussed previously. The Audit Committee was informed of, and investigated, potential improper activity related to the Fox Canyon Park and Euclid Avenue grants.

The Audit Committee received information that the City intended to use the proceeds of the \$2.4 million Fox Canyon Park grant to build a road instead of a park. We obtained and considered the grant application and other documentation. We also discussed this grant with individuals, City employees, and employees of the California State Department of Parks and Recreation. Based on the evidence we obtained, our analysis indicated that the City operated appropriately with respect to the Fox Canyon Grant.

The Audit Committee received information the City improperly administrated the \$162,000 Euclid Avenue grant. We obtained and considered the grant application and other documentation. We also discussed this grant with individuals, City employees, and employees of the California Department of Transportation. Based on the evidence we obtained, our analysis indicated the City operated appropriately with respect to the Euclid Avenue Grant.

In performing Single Audit Act work for the fiscal year ended June 30, 2004, the City's external auditors analyzed a significant portion of the City's Federal grants. The Audit Committee considered their analyses, which identified several issues: (1) Costs were recorded in the incorrect fiscal year; (2) the City did not maintain approval documentation in accordance with the requirements of the Department of Housing and Urban Development; and, (3) the City did not maintain documentation related to the suspension or debarment of vendors. The auditors provided recommendations for improvement in these areas. The Audit Committee has reached the conclusion that the issues identified by the auditors do not appear to have compromised the overall integrity of the City's grant monitoring and related financial reporting.

2. CITY ATTORNEY'S OFFICE BILLING PRACTICES

During the Audit Committee's interview with Diann Shipione on June 21, 2006, Ms. Shipione informed the Audit Committee of an allegation regarding the billing practices of the City Attorney's Office.¹ After her interview, Ms. Shipione provided documents revealing that this allegation had been raised by a former employee of the City Attorney's Office. It appeared that one of the documents Ms. Shipione provided had been sent to a number of agencies; however, the Audit Committee has been unable to confirm whether those agencies investigated this issue.² The document authored by a former City Attorney Office employee alleged that the City

¹ Interview by the Audit Committee with Diann Shipione (June 21, 2006).

² Letter from William R. Newsome, III to Carol Lam, United States Attorney, Jeffrey Koch,

Supervising Assistant Attorney General, Bonnie Dumanis, District Attorney, and Michael Aguirre, City Attorney (Dec. 6, 2004).

Attorney's Office "regularly 'bill[ed] the Water Department' for a set portion of their bi-weekly timecard hours regardless of work actually performed on Water Department business."³

Based on discussions with City personnel the Audit Committee learned that an accounting firm, Mayer Hoffman McCann P.C. ("Mayer Hoffman"), was engaged by the City and as part of their engagement they were asked to provide an analysis that identified the application of Wastewater and Water Fund resources toward the General Fund and other Funds.⁴ Their original engagement did not specifically address this allegation; however, since it was related to their current engagement they were asked by the City to assist the Audit Committee with its investigation.

Each year the City Attorney's Office enters into service level agreements and/or memorandums of understanding (collectively "SLAs") with various City departments to provide legal services. These agreements are based on estimates of the number of attorneys and support staff that will be needed to support the department. The departments allocate the amount of the SLA into their budgets to fund the cost of those legal services. The City Attorney's Interim Report No. 10 describes the City Attorney's SLA agreements between the Water and Metropolitan Wastewater Department Funds as "similar in nature to a retainer agreement."⁵

At the beginning of each year, the City Attorney's Management Team ("Management Team"),⁶ at the direction of Casey Gwinn, projected the number of attorneys and support staff needed to provide services to each department and assigned each of its staff areas of responsibility accordingly. The City Attorney's staff would be instructed to bill their time based on their budgeted areas of responsibility regardless of the actual work performed.⁷ For example, an investigator could work on a project for the Water Department, but still be told by their supervisor to bill 8 hours per day to the Metropolitan Wastewater Department. As a result, the investigator would bill the Metropolitan Wastewater Department even though they were actually performing work for the Water Department. Based on an Audit Committee interview with Alyssa Ross,⁸ the costs of the services provided by the City Attorney's Office were charged to

³ Letter from William R. Newsome, III to Carol Lam, United States Attorney, Jeffrey Koch, Supervising Assistant Attorney General, Bonnie Dumanis, District Attorney, and Michael Aguirre, City Attorney (Dec. 6, 2004) (with attachments).

⁴ The City engaged Mayer Hoffman in April 2006 to perform agreed upon auditing procedures with respect to the Wastewater and Water Enterprise Funds of the City of San Diego.

⁵ City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 1 (July 28, 2006).

⁶ The City Attorney's Interim Report No. 10 states that the management team under City Attorney Casey Gwinn ("leadership team") was comprised of Leslie Devaney, Anita Noone, Les Girard, Sue Heath, Gael Strack, Rick Duvernay, Dannell Scarborough, Maria Velasquez, Richel Thaler, and Jean Emmons. City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 1 (July 28, 2006). In an interview conducted by Mayer Hoffman, Robert Abel stated that he felt the management team under Casey Gwinn, who enforced this billing practice, consisted of Anita Noone and Keri Katz. (July 17, 2006)

⁷ City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 2 (July 28, 2006).

⁸ The City Attorney's Interim Report No. 10 states that Alyssa Ross started at the City Attorney's office in October 2001 to "handle reporting on budgetary issues for the office." City Attorney Michael J. Aguirre,

various departments based on bi-weekly timecards submitted by employees in the City Attorney's Office. This practice, of billing based on management projections, was used by a majority of the employees of the City Attorney's Office.

The Audit Committee has concluded that this was an unethical practice and employees were in fact falsifying their time records.⁹ Based on interviews conducted by Mayer Hoffman, some City employees objected to this billing practice and refused to record their time based on management's instructions.¹⁰ City Attorney Interim Report No. 10 relates that during her interview, Anita Noone stated that when employee Patricia Vaughn refused to bill anything but actual time, she "felt that Vaughn needed to be disciplined as she was being insubordinate."¹¹ Based on the information available, the Management Team did not take the appropriate steps to address the ethical concerns voiced by employees and acted inappropriately by enforcing this billing practice. As City Attorney Michael Aguirre stated in an interview with Mayer Hoffman, "I was just following orders is not a valid excuse" for enforcing a policy of falsifying time records.¹²

It is clear from documents provided to the Audit Committee that the current City Attorney, Mr. Aguirre, was made aware of this allegation soon after he took office in December 2004.¹³ Additionally, it appears that he instructed one of his investigators, Robert Abel, to investigate this allegation; however, this investigation was never completed.¹⁴ A memorandum provided to the Audit Committee by Robert Abel, a former employee of the City Attorney's Office, suggests that City Attorney Aguirre instructed Mr. Abel to investigate this issue and that Mr. Abel had asked the City Attorney for additional guidance.¹⁵ Nevertheless, after Mr. Abel produced a memorandum on the subject there was no response that he could recall and the investigation did

Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 13 (July 28, 2006).

⁹ The Audit Committee was provided a copy of the City's time card. The time card states under the employee signature section: "I Certify Labor Hours Above Are Correct"

¹⁰ Patricia Vaughn Interview Memo from Mayer Hoffman (July 28, 2006), Interview by Mayer Hoffman with Anita Noone (July 24, 2006).

¹¹ City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 6 (July 28, 2006).

¹² Interview by Mayer Hoffman with Michael Aguirre (July 28, 2006).

¹³ Letter from William Newsome, III to Carol Lam, Jeffrey Koch, San Diego Ethics Commission, Bonnie Dumanis, and Michael Aguirre (Dec. 6, 2004); City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 3 (July 28, 2006).

¹⁴ Memorandum from Robert Abel, Principal City Attorney Investigator, to Michael J. Aguirre, City Attorney (Dec. 20, 2004).

¹⁵ Memorandum from Robert Abel, Principal City Attorney Investigator, to Michael J. Aguirre, City Attorney (Dec. 20, 2004).

not move forward.¹⁶ Recently, the City Attorney issued Interim Report No. 10, which is a report on the results of the City Attorney's investigation into this allegation.¹⁷

It appears that a majority of the Management Team, along with prior City Attorneys who created and advocated this practice, no longer work at the City Attorney's Office.¹⁸ Additionally, Mr. Aguirre has indicated that approximately 80% of the attorneys who worked in the Civil Division where this practice was most prevalent, are no longer employed by the City.¹⁹ The Audit Committee has confirmed that the current City Attorney learned of this practice when he took office in December 2004 and immediately instructed his office's employees to accurately record their time.²⁰ However, recently Mr. Aguirre discovered that employees of the City Attorney's Office billing time for the Civil Enforcement Unit SLA were not complying with Mr. Aguirre's instructions and that their billing was based on a formula instead of reflecting the actual time worked. Mr. Aguirre indicated that he stopped this practice once it was discovered and reiterated his policy of billing actual time to all staff of the City Attorney's Office.²¹

The City provided financial information that the legal expenses charged directly to the enterprise funds by the City Attorney's Office totaled approximately \$20 million from FY 1996 to FY 2003. It appears that it may be difficult if not impossible to determine what the actual charges should have been. However, the evidence which we credit indicates that there were not significant amounts that were overcharged.²²

The billing practices of the City Attorney's Office – in particular, the falsification of time records resulting in improper charges to enterprise funds – implicate a number of statutes and legal prohibitions. Most prominently, the officials and employees of the City Attorney's Office may be held criminally liable under the California Penal Code pursuant to either Section 72 ("Presenting False Claims") or Section 424 ("Embezzlement and Falsification of Accounts").²³

¹⁶ Interview by Mayer Hoffman with Robert Hoffman (July 17, 2006).

¹⁷ The City Attorney's Interim Report No. 10 identified instances where time cards were altered after they were submitted by an employee. This issue was not identified during our discussions with past and current City employees over the course of our work with Mayer Hoffman.

¹⁸ Interview by Mayer Hoffman with Michael Aguirre (July 28, 2006).

¹⁹ Interview by Mayer Hoffman with Michael Aguirre (July 28, 2006).

²⁰ City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 3 (July 28, 2006).

²¹ City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 3-4 (July 28, 2006).

²² Interview by Mayor Hoffman with Robert Abel (July 17, 2006); Interview by Mayor Hoffmann with Dannell Scarborough (July 19, 2008).

²³ Cal. Penal Code § 72 (West 2006); Cal. Penal Code § 424 (West 2006). Section 72 prohibits "every person...with intent to defraud" from making "any false or fraudulent claim, bill, account, voucher, or writing" to a public board or officer. Section 424 prohibits public "officers" from, among other things, knowingly making false entries into any account or fraudulently altering an account. As a general intent crime, Section 424 only requires a showing that a violator had a general intent to commit a false act and is easier to prove than Section 72, a specific intent crime requiring a showing of a specific intent to defraud. *People v. Battin*, 77 Cal. App. 3d 635, 664 (Cal. Ct. App. 1978) ("A violation of Penal Code section 72

The latter provision has been applied to the specific context of the falsification of employee time records.²⁴ While in that particular case the defendant profited from the falsification of time cards, a violator of Section 424 does not necessarily have to personally benefit from the false claim or transaction or have direct control over the funds at issue.²⁵ Under the facts at hand, any officials of the City Attorney's Office who are found to have intentionally falsified their time records or directed and encouraged others to do so could be held liable under Section 424 for the misappropriation of public funds. While Section 424 applies explicitly to public officers, courts have found that it may apply to secondary employees as well under a theory of liability for aiding and abetting a principal violation.²⁶ Thus, subordinates within the City Attorney's Office who recorded false billing entries at the prompting of their superiors may also be held liable for aiding and abetting their superior's breach of Section 424.²⁷

Several provisions of the San Diego City Charter and San Diego Municipal Code may also apply to the false billing scheme at the City Attorney's Office. In particular, City Charter Section 71 sets limitations on the appropriations of the general operations of the City, restricting the growth in expenses from the City's General Fund from year-to-year to a certain percentage.²⁸ The City Attorney's Office's billing practices – which, in all likelihood, were motivated by a desire to circumvent this fiscal limitation by qualifying for and siphoning monies from the City's separate enterprise funds – most likely violated Section 71. San Diego Municipal Code Section 11.0401 provides that all applicants for “City licenses, permits, certificates, employment *or other City actions*...should be required to furnish true and complete information.”²⁹ To the extent falsified time records were presented to City Council and served as the basis of an action taken by the City (for example, allocating budget expenses or providing the foundation to transfer money from one fund to another) this provision was likely violated.³⁰

cannot be accomplished without the requisite intent to defraud. No such intent, however, is required of a violation of section 424”), *superseded by statute on other grounds*, Cal. Penal Code § 1424 (West 2006).

²⁴ *People v. Groat*, 19 Cal. App. 4th 1228, 1235 (Cal. Ct. App. 1993) (holding the manager of the City Department of Public Safety liable for misappropriating funds under Section 424 for “acts of falsifying her time cards and accepting pay for work not performed”).

²⁵ *Webb v. The Superior Court of Tulare County*, 202 Cal. App. 3d 872, 887 (Cal. Ct. App. 1988) (“[I]t is not necessary that [the violator] have actual custody of the public moneys. The fact that petitioner was not directly, in his job description or the common responsibilities of his position, charged with receipt, safekeeping, transfer or disbursement of public funds does not necessarily preclude a prosecution under section 424.”); *People v. Johnson*, 14 Cal. App. 2d 373, 381 (Cal. Ct. App. 1936) (holding that Section 424 covers a case where an official “intentionally and knowingly disobeys the law and it is not necessary to prove that in thus disregarding the law he also intended to defraud the public or to acquire financial gain for himself.”).

²⁶ *People v. Qui Mei Lee*, 48 Cal. App. 3d 516, 520 (Cal. Ct. App. 1975) (holding a secretary liable as an aider and abettor of her supervisor's violations of Section 424 for misappropriating public funds).

²⁷ Additionally, if it is demonstrated that either officials or non-officials had the specific intent to present the falsified billing records to City Council (a city “board”) in order to defraud (a stricter standard than presented by Section 424), those individuals may also be held accountable under Section 72. *People v. Battin*, 77 Cal. App. 3d 635, 664 (Cal. Ct. App. 1978), *superseded by statute on other grounds*, Cal. Penal Code § 1424 (West 2006).

²⁸ San Diego City Charter art. VII, § 71.

²⁹ San Diego Municipal Code § 11.0401 (emphasis added).

³⁰ Municipal Code Section 12.0102 provides for the enforcement of violations of the Code by the City Manager, the City Clerk or any of their designated Enforcement Officials. San Diego Municipal Code §

Additionally, under California's Proposition 218 ("Prop 218") (a constitutional amendment passed by California voters in 1996),³¹ it has been held that "revenue derived from a fee shall be used only for the purpose for which the fee was charged..."³² Here, in many instances time was billed to the Water and MWWF funds for work that was not actually performed. Since no services were actually provided, ratepayers bore a cost without receiving any corresponding benefit. While there is a question currently before the California Supreme Court about whether Prop 218 applies to water fees, assuming it does, the City Attorney's Office's billing practices likely violated it.

Based on evidence we obtained and the allegations presented to us we have conducted a thorough and complete investigation and have concluded that the questionable practices identified have been stopped. In addition, we have determined on the basis of credible evidence that those involved are no longer employed or possess managerial responsibility within the City Attorney's Office.³³

3. SDCERS INVESTMENT MANAGER

The Audit Committee investigated the allegation made by Ms. Shipione in her May 23, 2002, letter to Fred Pierce that there is a concern that SDCERS's outside investment manager, Callan, engages in a "regular practice of recommending less than fully experienced or successful investment managers after manager searches."³⁴ During the Audit Committee's interview with Ms. Shipione, she clarified this statement by explaining that her concern was Callan's not recommending the termination of underperforming investment managers.³⁵ In addition, Ms. Shipione stated that she received a disclosure from Callan concerning its relationships with its investment managers; however, she remains concerned that there may be more indirect relationships that could impair the objectivity of Callan's advice.³⁶

Concerning the allegation of Callan not recommending the termination of underperforming investment managers, the Audit Committee noted that this is the responsibility of the SDCERS Board. The SDCERS Board receives monthly updates during open session Board meetings concerning poorly performing (but currently engaged) money managers. These money managers are placed on a "Vendor Watch List" and are eventually terminated if their performance does not improve. Additionally, by engaging in this process of placing underperforming managers on a watch list, the SDCERS Board appears to be taking appropriate steps to ensure that money

12.0102. Remedial measures may include administrative civil penalties or injunctions, among other enforcement measures. San Diego Municipal Code §§ 12.0801-12.0810; San Diego Municipal Code §12.0202.

³¹ Right to Vote on Taxes Act, art. XIII D § 6(b)(3).

³² *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal. App. 4th 914, 923 (2005).

³³ City Attorney Michael J. Aguirre, Interim Report No. 10 Report to Auditor Related to Improper Billing Practices by the City Attorney's Office for Service Level Agreements with City of San Diego Water and Wastewater Departments at 1, 3-4 (July 28, 2006); Mayer Hoffman Interview Memorandums.

³⁴ Letter from Diann Shipione, Trustee, to Fred Pierce, Chair SDCERS Board (May 23, 2002).

³⁵ Interview by the Audit Committee with Diann Shipione (June 21, 2006).

³⁶ Interview by the Audit Committee with Diann Shipione (June 21, 2006).

managers engaged by the System are operating within the standards set by the System. However the Audit Committee does recommend that the SDCERS Board review its current practice of terminating poorly performing investment managers to determine if their current policy is sufficient.

The City Attorney is currently investigating the allegation regarding Callan's relationship with its investment managers. The City Attorney has filed a suit against Callan on behalf of the City of San Diego charging that Callan engaged in a "pay to play" scheme in the selection of investment managers for SDCERS and that Callan failed to disclose these relationships.³⁷ The resolution of the pending lawsuit will provide definitive determination of this issue.

4. RULES COMMITTEE PRESENTATION

Ms. Shipione alleged in her letter to Fred Pierce on September 7, 2003, that SDCERS altered numbers in their February 2003 Rules Committee Presentation which she presented to the Port Authority, between the time they provided a copy of the presentation to her and the time the presentation was actually provided to the Rules Committee.³⁸

The Audit Committee has confirmed with Ms. Shipione that this allegation was simply the result of a disagreement between herself and others at SDCERS concerning the accuracy of pension information contained in a PowerPoint slide she used during a presentation she made to the Port Authority.³⁹ The Audit Committee reviewed email correspondence between SDCERS staff and Ms. Shipione and has concluded that this allegation was simply a misunderstanding that does not warrant further investigation.⁴⁰

5. ACTUARIAL VALUATION PAYROLL

The Audit Committee investigated the allegation that the City does not maintain accurate payroll numbers and that those inaccuracies could result in an inaccurate valuation of SDCERS's assets and liabilities.⁴¹ Ms. Shipione explained in her interview with the Audit Committee that she was concerned with the accuracy of payroll data because April Boling was unable to match payroll data between the City and SDCERS.⁴²

The Audit Committee spoke with City personnel and obtained an understanding of the process used to transmit the City's payroll data to SDCERS. In addition, the City's Internal Audit Department performed an audit of the payroll data provided to Towers Perrin for the June 30, 2004 valuation and found no significant differences between the data used for the valuation and the City's payroll data. Based on the Audit Committee's analysis of the preceding facts, it

³⁷ First Amended Complaint at 19-20, *City of San Diego v. Callan Associates, Inc.*, No. GIC 852416 (Cal Super. Ct. Aug. 18, 2005).

³⁸ Letter from Diann Shipione to Fred Pierce, SDCERS President (Sept. 7, 2003).

³⁹ Interview by the Audit Committee with Diann Shipione (June 21, 2006).

⁴⁰ Email from Diann Shipione Shea to Lawrence Grissom (Aug. 26, 2003); Email from Cathy Lexin to Diann Shipione (Aug. 19, 2003); Email from Paul Barnett to Fred Pierce (Feb. 6, 2003).

⁴¹ Email from Diann Shipione Shea to Steve DeVetter, Andrew Paulden, and Amanda Wilson (Oct. 29, 2004).

⁴² Interview by the Audit Committee with Diann Shipione (June 21, 2006).

appears that accurate payroll information is used as the basis to preparing the SDCERS's actuarial valuations.

6. WATER RATES

Ms. Shipione made several allegations of impropriety against the City of San Diego in her October 29, 2004 memorandum.⁴³ Each allegation discussed herein relates to judgments made by the City about the applicability of Prop 218 to various fees and charges, and the City's need to comply with Prop 218. The evidence shows the City made these decisions while interpreting and applying relevant case law. In each instance, the City thoroughly disclosed its decision and the potential impact of the City's decision in the event that later case law rendered its actions improper. Therefore, the allegations discussed below appear to lack merit.

A. Water Rate Increases

In her October 2004 memorandum, Ms. Shipione alleged that, "[s]eparately, the City does admit it did not comply with State law/requirements when it increased water rates in FY 2002 and 2003 and further admits it may be challenged for the rate increases effective 2004, 2005, and 2006."⁴⁴ This allegation appears to have been derived from a voluntary disclosure filed by the City on March 26, 2004, related to its Water Utility Fund. There, the City disclosed that it complied with the notice and public hearing requirements of Section 6 of Article XIID (Prop 218) when the City increased its water service rates effective August 13, 1997, July 1, 1998, and July 1, 1999, but that "relying on a California Court of Appeals case decided in 2000" the City concluded it was not necessary to, and therefore did not, comply with the notice and public hearing provisions when the City increased water service rates in July 1, 2002 and July 1, 2003.⁴⁵ The Voluntary Disclosure stated that because "the City [] approved rate increases effective on July 1 in each of 2004, 2005, and 2006...those rate increases may likewise be subject to challenge."⁴⁶ Previously, the City had disclosed its decision not to comply with Prop 218.⁴⁷ Relying on "an intermediate appellate court decision issued in 2000," in its 2002 Water Bond Offering, the City concluded it was not obligated to, and thus would not, notice water rate increases.⁴⁸ It continued that: "The

⁴³ Email from Diann Shipione Shea to Steve DeVetter, Andrew Paulden, and Amanda Wilson (Oct. 29, 2004).

⁴⁴ Email from Diann Shipione Shea to Steve DeVetter, Andrew Paulden, and Amanda Wilson (Oct. 29, 2004).

⁴⁵ Municipal Secondary Market Disclosure for \$385,000,000 Certificates of Undivided Interest In Installment Payments Payable From Net System Revenues Of the Water Utility Fund of the City of San Diego, California, Series 1998 at 5-6 (Mar. 26, 2004).

⁴⁶ Municipal Secondary Market Disclosure for \$385,000,000 Certificates of Undivided Interest In Installment Payments Payable From Net System Revenues Of the Water Utility Fund of the City of San Diego, California, Series 1998 at 6 (Mar. 26, 2004).

⁴⁷ The 2002 Water Bond Offering states, "If Proposition 218 is determined to apply to water capacity charges and other water fees and charges, these and other fees and charges of the Water System may need to be revised in order to satisfy the requirements of Proposition 218." \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 29 (Oct. 8, 2002).

⁴⁸ \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 30 (Oct. 8, 2002). The "intermediate appellate court decision issued in 2000" that addressed this issue was *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (Cal. Ct. App. 2000).

interpretation and application of Prop 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.”⁴⁹ The City further described the potential impact of its noncompliance with Prop 218, stating that, “[i]f Proposition 218 is determined to apply...fees and charges of the Water System may need to be revised.”⁵⁰ Since the Court of Appeals decision, numerous Courts have found that the noticing and public hearing requirements of Prop 218 do not apply to water rates because of an express carve-out found in Section 6, Article XIID of Prop 218, further strengthening the City’s initial conclusion that such noticing was unnecessary.⁵¹

Ms. Shipione’s allegation thus appears to lack merit because: (1) the City disclosed its decision not to notice and follow public hearing requirements regarding water rates, and also disclosed that it could be found to be in violation of Prop 218 as a result of its decision; (2) the City further disclosed the potential financial impact if it were found to be in noncompliance; and (3) the City relied on case law holding that the noticing and hearing requirements of Prop 218 did not apply to water service charges. This finding has since been confirmed by other courts.⁵²

B. Uncommitted Cash Reserves in a Rate Stabilization Fund

Ms. Shipione alleged that, “[t]he City’s practice of charging water service rates based upon maintaining uncommitted cash reserves in a Rate Stabilization Fund is highly controversial, may not comply with State law and the City routinely recognizes that it may have to give all this money back.”⁵³ The City disclosed in its 2002 Water Bond Offering that it had a Rate Stabilization Fund that maintained uncommitted cash reserves for later use, to pay

⁴⁹ \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 31 (Oct. 8, 2002).

⁵⁰ \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 29 (Oct. 8, 2002).

⁵¹ *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409, 427 (Cal. 2004) (finding that “...subdivision (c) of article XIII D, section 6, [] expressly excludes ‘fees or charges for sewer, water, and refuse collection services’ from the voter approval requirements...”); *Bighorn-Desert View Water Agency v. Beringson*, 15 Cal. Rptr. 3d 911, 916 (Cal. Ct. App. 2004) (“As Article XIII D plainly makes an exception for fees or charges for water services, Bighorn’s rates and charges for water service can be imposed without voter approval and are not subject to Proposition 218’s voter initiative power.”); *Howard Jarvis Taxpayers Association v. City of Salinas*, 98 Cal. App. 4th 1351 (Cal. Ct. App. 2002).

⁵² *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409, 427 (Cal. 2004) (finding that “...subdivision (c) of article XIII D, section 6, [] expressly excludes ‘fees or charges for sewer, water, and refuse collection services’ from the voter approval requirements...”); *Bighorn-Desert View Water Agency v. Beringson*, 15 Cal. Rptr. 3d 911, 916 (Cal. Ct. App. 2004) (“As Article XIII D plainly makes an exception for fees or charges for water services, Bighorn’s rates and charges for water service can be imposed without voter approval and are not subject to Proposition 218’s voter initiative power.”); *Howard Jarvis Taxpayers Association v. City of Salinas*, 98 Cal. App. 4th 1351 (Cal. Ct. App. 2002).

⁵³ Email from Diann Shipione Shea to Steve DeVetter, Andrew Paulden, and Amanda Wilson (Oct. 29, 2004).

Maintenance and Operation Costs of the Water System.⁵⁴ Regarding Prop 218 it stated, “[i]t is unclear whether under the foregoing standards rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves.”⁵⁵ The 2002 Water Bond Offering also disclosed the amount held in its Rate Stabilization Fund (indicating what the impact could be if such a Fund were found to violate Prop 218).⁵⁶ The disclosure stated that “[a]s of June 30, 2002, the amount on deposit in the Rate Stabilization Fund was \$26,500,000.”⁵⁷ The City's potential noncompliance with Prop 218 regarding the Rate Stabilization Fund was again disclosed in the March 26, 2004 Voluntary Disclosure for Water.⁵⁸

At the time of the City's 2002 Water Bond Offering, the case law suggested that the City could continue its practice of maintaining uncommitted cash reserves in a Rate Stabilization Fund without violating Prop 218.⁵⁹ For example, in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, the Court held that the City of Los Angeles could transfer a surplus of approximately \$87 million from the water revenue fund to the city's reserve fund and then to the city's general fund without violating Prop 218 because the City Charter “ma[de] it clear that any transfer from the Water Revenue Fund to the Reserve Fund was a lawful exercise of the City's power.”⁶⁰ Here, funds in the Rate Stabilization Fund established within the Water Utility Fund were not transferred to other funds to be used for other purposes, but rather only used for the water system, making the City's Rate Stabilization Fund even less

⁵⁴ \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 9 (Oct. 8, 2002).

⁵⁵ \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 30 (Oct. 8, 2002).

⁵⁶ \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 9 (Oct. 8, 2002).

⁵⁷ \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 9 (Oct. 8, 2002).

⁵⁸ The Disclosure stated: “Although *Richmond* has clarified some of the uncertainty surrounding the application of Section 6 of Article XIID to water service fees and charges, what remains unclear and what the Court did not address is whether the City's practice of establishing rates and charges at levels which permits deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves complies with the requirements of Section 6 of Article XIID. The clarification of this issue will ultimately be determined by the courts or through implementing legislation, and it is not possible at this time to predict with certainty whether this practice will be upheld as valid.” Municipal Secondary Market Disclosure for \$385,000,000 Certificates of Undivided Interest in Installment Payments Payable From Net System Revenues Of the Water Utility Fund of the City of San Diego, California, Series 1998 at 7 (Mar. 26, 2004).

⁵⁹ See e.g., *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (Cal. Ct. App. 2000). For example, the Water Bond Offering disclosed that “[i]n an intermediary appellate court decision issued in 2000, it was held that water service fees and charges, where based primarily on consumption were not ‘fees’ or ‘charges’ within the meaning of Article XIID...Even though the City believes that its water rates and capacity charges are not subject to Article XIID, the City believes that they comply with the foregoing standards. It is unclear whether under the foregoing standards rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves.” \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 30 (Oct. 8, 2002).

⁶⁰ *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79, 84 (Cal. Ct. App. 2000).

susceptible to a Prop 218 challenge than the funds of the City of Los Angeles.⁶¹

Therefore, Ms. Shipione's allegation regarding the Rate Stabilization Fund appears to be unfounded because (1) the City fully disclosed that it maintained a Rate Stabilization Fund and that it may not comply with Prop 218; (2) the City disclosed the amount in the Rate Stabilization Fund; and (3) case law during the relevant period indicated that the Rate Stabilization Fund as used by the City likely did not violate Prop 218.

C. Disguised Tax

Ms. Shipione alleged that, "the City has imposed and collected other fees, including but not limited to a storm-water 'fee' and an underground utility 'fee'...both of which impose a charge without voter approval."⁶² She also recognized that the City disclosed that if Prop 218 applied, it may have to return funds received: "The City has recognized, in the past, though not necessarily in its financial statements, the likelihood that the sums collected, if challenged in court, would be ordered returned as being a disguised 'tax' not in compliance with 218 and other State laws."⁶³

As Ms. Shipione herself acknowledged, the City had "recognized" (*i.e.* disclosed) in the past that a court could disagree with the City's conclusion about the applicability of Prop 218 to certain of its fees and charges. For example, the 2002 Water Bond Offering disclosed that fees and charges imposed by the City could be deemed to be subject to Prop 218, which could have an impact on the City's fiscal health.⁶⁴

In short, the assertion that the City could be ordered to repay fees and charges if the fees were found to have been collected in violation of Prop 218 is a correct statement. However, the City fully disclosed this possibility and it relied on prevailing case law in reaching

⁶¹ The Water Bond Offering disclosure stated that amounts deposited by the City into the Rate Stabilization Fund "may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Water System, and any amounts so transferred shall be deemed System Revenues when so transferred." \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 9 (Oct. 8, 2002).

The most recent case addressing facts that are analogous to this case is *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal. App. 4th 914 (Cal. Ct. App. 2005). There, the Court held that a fee for general government activities that was assessed against the utilities and then passed on to the ratepayers violated Proposition 218. However, the Court explicitly stated that the revenues from the fees that were charged were used for purposes other than that for which the fees were imposed, unlike the situation involving the City's Rate Stabilization Fund.

⁶² Email from Diann Shipione Shea to Steve DeVetter, Andrew Paulden, and Amanda Wilson (Oct. 29, 2004).

⁶³ Email from Diann Shipione Shea to Steve DeVetter, Andrew Paulden, and Amanda Wilson (Oct. 29, 2004).

⁶⁴ The Water Bond Offering disclosed, "the City's general financial condition may be affected by other provisions of Article XIIC and Article XIID, including...provisions of Article XIID that could reduce the ability of the City to fund certain services or programs that it may be required or choose to fund from its general fund, such as provisions...requiring any imposition or increase of property related fees or charges other than for sewer, water and refuse collection services or fees for electrical or gas service (which are not treated as property related for purposes of Article XIID) to be approved by a 'Majority of the property owners' subject to the fee or charge." \$286,945,000 Public Facilities Financing Authority of the City of San Diego, Subordinated Water Revenue Bonds, Series 2002 at 31 (Oct. 8, 2002).

conclusions about the applicability of Prop 218 to its various fees and charges. Therefore, Ms. Shipione's allegation appears to lack merit.

D. Conclusion

The issues Ms. Shipione raises in her memorandum were disclosed by the City. Their potential financial impact on the City was also disclosed. Case law was consistent with the City's interpretation with respect to each issue. Therefore, Ms. Shipione's allegations are unfounded.